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Brittle Might?

Testing China's Success

Highlights from the conference

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Testing China's Success

Highlights from the conference
5-6 October 2015, Ottawa

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The conference and its objectives

On 5 and 6 October 2015, the Canadian Security Intelligence Service (CSIS) hosted a two-day conference on China as part of its Academic Outreach (AO) program. Conducted under Chatham House rule, the event provided an opportunity for the presenting experts and other participants to reflect on the anti-corruption campaign launched by President Xi Jinping in 2013; examine the waning influence of the Politburo Standing Committee; evaluate the People's Liberation Army's modernisation efforts; and study the potential impact of China's regional initiatives such as the Asian Infrastructure Investment Bank (AIIB).

This conference attracted renowned researchers from North America, Europe and Asia. The following report contains some of the main conference findings and reflects the views of those independent experts, not those of CSIS.

The AO program at CSIS, established in 2008, aims to promote a dialogue between intelligence practitioners and leading specialists from a wide variety of disciplines and cultural backgrounds working in universities, think-tanks, business and other research institutions in Canada and abroad. It may be that some of our interlocutors hold ideas or promote findings that conflict with the views and analysis of the Service, but it is for this specific reason that there is value to engage in this kind of conversation.

Executive summary

Executive summary

Modern China is increasingly complex, opaque and challenging to understand

- Since 2010 assessing China and its intentions has become significantly more confusing and complex. Decision-making structures and processes within the CCP's leadership are increasingly opaque and Xi Jinping's cadre of advisors is rapidly shrinking as he continues to consolidate authority.
- Fifty years of Cold War and 15 years of hot (counter-terrorism) war appear to have conditioned Western and other countries to think in black-and-white terms. Engaging with China requires a more holistic and nuanced approach that is less transactional and issue-specific.
- There is a need for developing and curating deep expertise within the West's governments on China and Asia more broadly. This is a long-term challenge that requires investment in particular skills and expertise by Western institutions and other organisations.

China's relative strengths and weaknesses deserve closer inspection

- China's economic outlook may not be as gloomy as once thought, at least not in the short or medium term. Based on official data, the service sector in China has been the country's engine of growth in the last three years and seems relatively resilient, despite recent volatility in Chinese markets and the weaker performance of the manufacturing sector. A more likely scenario than collapse of the Chinese economy is that the country will be able to muddle through despite only modest growth.
- A generation of Chinese have grown up taking for granted the expectation of high economic growth. Over 250,000 new college graduates seek employment every year and they are increasingly looking for jobs with purpose. However, high unemployment among those recent graduates, the growing concentration of wealth in the country and the sharp demographic imbalance between the sexes could bring about future social tensions. There

are signs of a broader quest for meaning among the young Chinese. Of religious believers in China, 62 per cent are between 16 and 39 years old, and youth are increasingly inclined to speak up against authority.

Chinese leadership is concentrated in the hands of Xi Jinping but other important actors also contribute to decision-making

- Xi is a powerful leader and skilled political operator. He has established institutions such as the National Security Commission while he has also weakened the power and influence of elders and competitors. He has introduced a series of coercive measures, including the anti-corruption campaign, to control the existing institutions where the most significant levers of power reside.

- Despite his considerable power, Xi Jinping faces notable passive resistance. This comes from interest groups within state-owned enterprises, their allies in the Chinese Communist Party (CCP), as well as provincial leaders who do not welcome the centralisation drive after over thirty years of local empowerment.

- Chinese leaders appear to be driven by a combination of deep fear and potent patriotism. Xi and his counterparts are determined to revitalise China and are confident they are operating from a position of strength.

Military modernisation and professionalisation of China's intelligence services are top security imperatives for Beijing

- China's military has new tools but little real experience using them. The armed forces do not have recent combat experience and Western forces are not regularly engaging in joint exercises with the People's Liberation Army (PLA). This may create challenges when it comes to communicating for the purposes of de-escalation. Ambitious military reforms still aim to modernise the means at the disposal of Beijing. If those are successful, the PLA will focus increasingly outside the country, including on remote regions.

- China's ambitions have outpaced the evolution and professionalisation of its intelligence services, which have to play catch-up. As a result the country is investing heavily

in cyber as an easier way to keep up with rapidly evolving intelligence demands.

- Developing a robust, 21st-century HUMINT agency is a complex endeavour not devoid of significant challenges for Beijing. China will continue to allocate significant resources to this type of intelligence and will likely take advantage of the growing flows of frequent foreign visitors to its territory to expand its collection activities.

- Professionalism is unevenly apportioned among intelligence services in China. While the military has a monopoly on all-source intelligence, the Ministry of State Security (MSS) appears relatively less competent, even though a career in Chinese intelligence is no longer viewed as terminal or a dead-end.

Enhanced global ambition and desired regional supremacy have created tensions for China's foreign relations

- Economic forces are in conflict with security interests in Asia. Following the 1997-98 economic crisis, economic interests were clearly winning, but the tide has turned and security priorities are beginning to take precedence. China is better able to sustain this tension than its Western counterparts and does not feel the need to resolve it as fast. Beijing appears increasingly at ease managing tense relations with multiple neighbours.

- China no longer sees the West as one block, but rather as fragmented. Beijing's approach to international engagement is becoming increasingly sophisticated. Potential complacency regarding China may reveal diverging interests and views among Western countries.

- China's considerable investments in research in the Arctic have created concerns among the Arctic coastal states. It has so far not adopted an aggressive posture to claim interests in the region, unlike what has been seen in the East and South China Seas. However, statements made by Chinese researchers and officials point to a potential future line of argument that could demand a "globalisation" of the Arctic so Beijing could exercise its presumed rights in the region.

Has the bloom come off the China rose? Assessing the case for a resilient China

Chapter 1 – Has the bloom come off the China rose? Assessing the case for a resilient China

The course charted by China's re-emergence as a great power over the next few decades represents the primary strategic challenge for the United States and for the East Asian security landscape. If China's economic, military and geopolitical influence continues to rise at even a modest pace during this period, the world will witness the largest shift in the global distribution of power since the rise of the United States in the late 19th and early 20th centuries. In many ways, it is precisely the multi-dimensional character of China's resurgence that has been among its most striking features. If China in the years ahead surpasses the United States as the world largest economy, it will mark the first time in centuries that the world's economic leader will be non-English speaking, non-Western and non-democratic.

Of course, these are some pretty big ifs. To stay on the path towards realising this new global balance of power, China's leaders will have to navigate successfully the many challenges they face both at home and abroad. They will have to demonstrate sufficient foresight and flexibility to respond to immediate tactical concerns while always staying mindful of their geostrategic long game. They will have to prove that China's political and economic rise will be as sustainable over the next 30 years as it has been over the last third of a century, even though the task they are confronting now, as highlighted by the economy's struggles, arguably is much more complex than that faced by their predecessors. They will have to craft a workable strategic framework for channelling the country's growing wealth and power in a way that facilitates its return to the dominant position in East Asia without sparking conflict with the neighbours or, more consequential, the United States. In other words, they must define what type of great power China wants to be and whether or not to adhere to long-established global rules that they had no hand in shaping.

Against this backdrop, finding a means to navigate these challenges in a way that avoids war and promotes sustained regional and, ultimately global economic growth is essential to preserve future stability and prosperity in Asia. For US allies and partners in the region, understanding China right will be indispensable to determine how they can contribute individually and collectively to keeping Asia safe and vibrant in a period of great uncertainty and

diminishing resources. This requires improving their grasp of the fundamental underpinnings of China's growing influence under the Chinese leadership team that took power in 2012.

A related debate running through much of the public commentary on China's return to the world stage, and analysts' prognostications concerning the staying power of that phenomenon, centres on the personal role of Chinese President and Communist Party (CCP) General Secretary Xi Jinping in setting Beijing's strategy. At its core, the discussion about Xi turns to assessments of his personal power, and particularly whether China's shift towards greater global activism is a function of Xi's unique style and personal authority. Some observers argue that Xi is not much different than his two immediate predecessors, Hu Jintao and Jiang Zemin; China itself may be more powerful, but Xi is still a captive of collective decision-making. Others contend that Xi has more obvious political gravitas and an accompanying unity of purpose that liken him to the stature of the lions of the Chinese Communist Party, Mao Zedong and Deng Xiaoping. Others contend that trying to gauge Xi's strength in a political system as opaque as China's is simply a fool's errand.

But the observable facts about Xi Jinping's rule thus far do seem to indicate clearly that he has managed to accrete substantial power to himself in the comparatively short time he has been in office. Reviewing the record, we can see that he has achieved several things that came to Jiang and Hu only late in their tenures, or even eluded them entirely.

- Xi has used a coercive toolkit, most notably through his anti-corruption drive, to rein in the institutions that constitute the regime's key levers of power: the Party bureaucracy, the security services and China's military, the People's Liberation Army (PLA);
- He has created several new high-level party policy bodies and chairs all of them;
- He has changed the nature of policy-making at the senior-most levels of the Party, diminishing the deliberative role of the regime's formal institutions—especially the government ministries—in favour of a more informal style of policy advisory; and
- He has weakened the authority of his retired peers, making it harder for them to intervene in policy-making from behind the scenes.

Nevertheless, this does not mean that Xi wields unencumbered power. Regardless of the number of new policy mechanisms he creates or the number of retired and sitting officials he purges, he still faces a Politburo line-up that he had very little hand in choosing. He presumably will have to wait for the next party congress in 2017 to change that substantially. He also faces passive resistance to his agenda from powerful vested interests in the state-owned enterprises and their allies in the state machinery, as well as from provincial officials who resent his efforts to reverse three decades of devolving power from the centre to the regions. It is clear that Xi's pathway to becoming the transformative leader he aspires to be is very much a journey in progress. The difficulties of managing the economy's transition to a slower-growth, consumption-led development model and the uncomfortable pursuit of bold economic reforms along with an unrelenting ideological and political retrenchment program are bound to present serious challenges.

With such a full plate at home, it is surprising that President Xi has managed to find the wherewithal to also craft a fully redesigned foreign-policy strategy. In late November 2014, he delivered a keynote address to a CCP Central Foreign Affairs Work Conference, the first to be held under his stewardship as China's top leader. Such meetings are exceedingly rare and equally authoritative. In his speech, Xi laid out a sweeping foreign-policy platform, suggesting that, despite the many challenges he and his colleagues are facing at home, a proactive, balanced and, where necessary, more muscular foreign-policy approach is likely to be a hallmark of his rule. Xi's operating principle appears to be that Beijing should be wielding its newfound strategic heft in the manner of a traditional great power.

China's neighbours and the United States should take at least some comfort from Xi's affirmation in his address of several of the key foreign-policy precepts that have guided Chinese diplomacy for more than a decade. He notes, for example, that China will continue to follow the path of "peaceful development", and that its rise can only be accomplished through peaceful means and with an eye towards achieving "win-win" outcomes for all concerned. With China's rapid military modernisation, sizeable year-on-year defence budget increases and forthright assertion of its territorial sovereignty claims, it is easy to lose sight of the fact that peaceful development acts as an important conceptual brake on a runaway military buildup. Implicit in its characterisation of China's priorities is the notion that economic development—and not the path of

arms races and military adventurism followed by the Soviet Union—is paramount in securing the country's return to regional pre-eminence.

Likewise, Xi acknowledged that China remains in a "period of strategic opportunity" (POSO) running through at least 2020, roughly the period of Xi's time in office. This concept encapsulates the CCP's primary external strategic guideline and reflects the leadership's judgement that China is enjoying a window in which a benign external security environment allows it to focus on its internal development. Moreover, implicit in Xi's endorsement of the POSO is a signal that China is not overtly seeking to be a disruptive power either regionally or globally. As long as the concept remains in force, there will be hard limits on Beijing's willingness and ability to set out on a truly revisionist course aimed at fundamentally reshaping the balance of power in East Asia. Authoritatively acknowledging that China's external security environment will remain largely placid for the foreseeable future makes it far more difficult for the leadership to argue—as have revisionist powers in the past—that they must assert Chinese power more overtly and forcefully because the country's interests in the region are somehow under threat.

Xi's speech was much more than just old wine in new bottles. Perhaps its most striking feature is the way in which its content seems to move China more rapidly away from Deng Xiaoping's long-standing injunction for the country to maintain a low profile internationally. Xi argues, for example, that China's biggest opportunity lies in the determined leveraging and further development of its strength and influence internationally. He also says that "China should develop a distinctive diplomatic approach befitting its role [as] a major country". So, in effect, Xi is telling his audience that China already is a great power, and should start acting like one.

Xi's remarks in this context seem to alter subtly the definition of the POSO by stressing greater Chinese activism. Whereas the original framework carries the notion of China meekly accepting its advantageous external environment as a gift to be sustained within the constraints of its limited capabilities, Xi's formulation would seem to suggest a much more forward-leaning approach by which China seeks to shape the contours of the POSO through its growing power. In his November 2014 speech, Xi acknowledged the deep interdependence between China's domestic and foreign policies, but provides his own interpretation for the relationship between

them. Instead of being the result of China's good fortune on its periphery, China's domestic development is seen as an engine for the promotion and expansion of a stable and secure region. Implicit in such a description is an immense faith in the inevitability and sustainability of China's rise.

China's neighbours have already experienced the operational effects of this burgeoning confidence in Beijing's foreign policy. On the upside, Xi has called for improving ties with China's neighbourhood by pursuing a more focused regional diplomacy. In his foreign-policy address, Xi made repeated references to the need for Beijing to adopt "win-win" strategies and he suggested that several new elements should be added to the country's diplomatic toolkit to achieve that aim. Xi also sees robust economic diplomacy as a key element in his overall diplomatic strategy. Signaling to its neighbours that China fundamentally grasps the notion that, in Asia, economics *is* security underpins Chinese initiatives like the AIIB and the One Belt One Road initiative aimed at creating a modern-day version of the ancient Silk Road crossing Eurasia. Implying through such programs that the economic health of the region is intimately tied to China's continued growth and prosperity also serves to advance Xi's seeming predilection for a more multi-directional foreign-policy approach than that of his predecessors.

Xi sees US power in the region as a lesser constraint on China's influence—both benign and coercive—than earlier leaders. In fact, ties with the United States, although still a top priority in the hierarchy of Beijing's foreign relationships, seem less of a preoccupation for Xi than his predecessors. This is not to suggest that Xi is not eager for stable and healthy US-China relations. Rather, he seems to prefer a more casual approach to the relationship that lacks the eagerness and rapt attention that characterised the policies of Hu Jintao and Jiang Zemin. This less awestruck view of US power contributes to Xi's greater tolerance for risk and has the important side effect of imbuing Xi with greater confidence to court more deliberately other important foreign partners. This attitude was very much on display during the September 2015 summit in Washington between the Chinese and US leaders.

Nevertheless, China's neighbours are befuddled by Beijing's ostensible inability to reconcile contending impulses: to seek improvements in relations on Beijing's periphery while simultaneously reinforcing its expansive territorial claims and

growing its military footprint. Xi's unflinching assertion of China's sovereignty claims over disputed territories in both the East and South China Seas is generating a pervasive level of insecurity in the region that risks invalidating Beijing's good-neighbour policy mantra and increases the demand for a strong US security and economic presence in the region.

In its management of ties with Japan the notion that China should behave like a traditional great power means that it must seek Japanese acquiescence to a subordinate position in both the bilateral relationship and in the overall regional power-dynamic. Much of Beijing's approach is designed to belittle Japan by creating a persistent sense of pressure while simultaneously increasing Tokyo's sense of isolation. Despite some improvement in ties in early-mid 2015, there is little evidence that Beijing's deep instinct to diminish Japan's regional influence has changed. Even in its evolving relationship with its erstwhile ally, North Korea, China's actions seem to convey to Pyongyang that the "special relationship" of the past is no more; a Chinese leadership bent on wielding its strength will expect North Korea to accept its position as Beijing's client. Given North Korean leader Kim Jong-un's apparent penchant for provocations when he feels ignored, Beijing's more dismissive approach could inadvertently contribute to rising tensions on the peninsula.

China's approach to its territorial disputes in the South China Sea suggests a similar dynamic. Its vigorous assertion of its claims seems motivated by two key drivers, one tactical and the other more strategic. On the tactical side, Beijing's activism reflects its assessment that it lost substantial ground to its rival claimants during its entanglement in managing heightened tensions across the Taiwan Strait from 1996 to 2008. China's irritation at being out-manoeuvred by its smaller, less powerful competitors and growing confidence in its capacity to bring about change together generated the robust "push-back" that has characterised China's actions in the last several years. More broadly, China's approach reflects its interest in developing more maritime strategic depth on its periphery as its interests expand well beyond its shores. In effect, China sees its activities in the South China Sea as contributing to its efforts to communicate to its regional neighbours and the United States that its forces intend to operate at will beyond the second island chain and into the Western Pacific.

In many ways, such ambitions reflect the considerable success of China's military modernisation efforts in the last two decades.

Beijing's desire for advanced military capabilities stems from its general assessment of the pillars of US military power projection and the recognition that these capabilities amounted to an insurmountable obstacle for the PLA. Understandably, Chinese planners, with the assurance of sustained, targeted funding, have responded to these shortcomings by developing a suite of capabilities specifically designed to counter each US pillar: aircraft carriers; air superiority and long-range precision strike; regional bases and alliances; and space and information dominance.

Attention has been paid to the most obvious of these "anti-defence-area-denial" (A2AD) capabilities: submarines and anti-ship cruise or ballistic missiles to deter US aircraft carriers and modern fighter aircraft, as well as surface-to-air missiles to counter US air superiority. But in many ways the more consequential leaps have translated in to the development of robust Chinese electronic warfare capabilities and the PLA's multilayered approach to dealing with US regional bases and alliances, both of which pose unprecedented challenges for senior US planners and decision-makers. Chinese electronic warfare arguably is the most important part of the A2AD revolution, but it remains poorly understood in the West. In short, the key information systems that enable US joint operations—most satellite communications, GPS, tactical datalinks and high frequency communications—could be severely degraded, or even rendered unusable, especially the closer US forces get to Chinese territory. Similarly, advances in Chinese command, control, communications, computers, intelligence, surveillance and reconnaissance (C4ISR) will be the great enabler of PLA capabilities over the next 10 to 15 years. China has invested heavily since the mid-1990s and will continue to do so. By 2030, the PLA is expected to have regional reconnaissance from space-based platforms and near-space tactical platforms—imagery, electronic intelligence (ELINT) and signals intelligence (SIGINT)—and timely global reconnaissance from a reliable space-based architecture. It will be very hard for US forces to hide from Chinese space, near-space and terrestrial ISR, especially for large naval assets and forward deployed forces.

The PLA's response to US regional bases and alliances is both kinetic and political. China has deployed a host of theatre-range weapons—medium-range ballistic missiles, land-attack cruise missiles and air-launched, air-to-ground standoff attack munitions—that turn key US bases into high value targets for the PLA. Chinese capabilities also make US regional allies targets instead of sanctuaries, prompting a more complicated calculation

for the host governments that risks further slowing the US decision cycle in a conflict.

This dilemma is not limited to US allies and partners, however. The acquisition of these systems also inevitably changes the calculus of US policy-makers and senior military commanders when they consider the wisdom and implications of US intervention in a conflict close to China's periphery. In the mid-1990s, such a prospective US intervention was comparatively low-cost, non-escalatory and highly effective. Today, and especially by 2020, it could be a very dubious calculation. China has credible, even if unproven, capacities to disable or destroy US carriers—with incalculable implications for US prestige globally—making the efficacy of such an intervention much more questionable.

Despite its impressive technical modernisation, however, by the account of its own senior commanders and military scholars, the PLA has substantial shortcomings when it comes to questions of "software", particularly its inability to translate weapons modernisation into combat power for joint operations. While most analysts focus on new equipment, PLA officers understand their doctrine requires the integration of all forces, old and new, military and civilian, into joint operations that incorporate firepower, mobility, information operations and special operations. The PLA undoubtedly has added a lot more complexity to any US military intervention calculus, particularly in a Taiwan scenario, but theirs is still a pretty negative assessment of the Chinese military's actual war-fighting capability. To some extent, these challenges are all the more difficult for the PLA because they are rooted in its standing as the armed wing of the CCP. Some argue that the current command structure, modes of training, command- and-control systems and modes of operation are not sufficient for Chinese strategic imperatives or for the demands of modern warfare. China's current national command structure also dates from 1985, when China's proximate security preoccupation was the Soviet Union. That structure has little inherent capacity for joint service integration and expeditionary operations.

Recent adjustments to China's official military strategy only serve to bring these deficiencies into sharper focus. The PLA in May 2015 issued its latest Defence White Paper. The paper notes that the conduct of warfare has shifted to give greater prominence to the application of information technology in all aspects of military operations; it states that the military has been handed a new

"strategic task", to "safeguard the security of China's overseas interests", especially in the maritime domain.

Defence reform priorities mooted in conjunction with the broad package of reform guidelines issued following the November 2013 Third Plenum of the 18th Central Committee suggest the leadership is aware of these shortcomings and is seeking to address them. Of particular interest is the Plenum's very specific description of the exact structural reforms to be pursued. It called for the creation of a "sound...joint operations command structure and theatre joint operations command system", as well as the "reform of the joint operations training and support system". Should the reforms proposed at the Plenum be successful, the PLA will emerge as a much more capable, lethal and externally-oriented fighting force.

The PLA's enhanced mission marks China's clearest articulation yet of its intent to operate further afield, making it inevitable that such activities will have repercussions on US interests. To address the new challenges in the maritime domain, the white paper calls for a new strategic orientation for the PLA by noting that "the traditional mentality that land outweighs sea must be abandoned". As a consequence, the document states that the PLA Navy (PLAN) "will gradually shift its focus from 'offshore waters defence' to the combination of 'offshore waters defence' with 'open seas protection'". Under these auspices, the PLA in the near future will be a force operating well beyond the first island chain and into the Indian Ocean. It likely will play substantial roles in regional disaster assistance relief and will have a significant expeditionary capability the evacuation of Chinese citizens and employees in Africa, South Asia and beyond. The call for the PLA to adopt this expanded mission is of greatest concern to the United States, as it will gradually extend the reach of the PLA and emphasise "non-traditional security" operations such as counter-terrorism, disaster relief, economic security, public health and information security.

> *...the CCP seeks to reinforce the emerging narrative that China is moving to the centre of global economic activity, strength, and influence even, paradoxically, as its own economy struggles to maintain strong momentum.*

By 2030, China likely will have multiple aircraft-carrier strike groups, facilitating the intimidation of lesser powers, enhanced regional prestige and the demonstration effect of near-constant

presence. For rival claimants in the South China Sea, this is a game-changer. There will almost always be a Chinese carrier strike group floating in the contested waters, or within half a day of steaming time. Whether they have seized territory or worked out some resource-sharing scheme with some or all of the other claimants, the South China Sea is virtually a Chinese lake, like the Caribbean or the Gulf of Mexico is for the United States today. China's military capacity will define how the region behaves towards Beijing without the need for menacing Chinese behaviour. The PLAN will have the capacity to make US naval operations in the South China Sea or within the first island chain very doubtful endeavours, other than with submarines.

Emerging Chinese military capabilities are not the only risk for US interests stemming from China's return to the world stage. How a rising China will choose to interact with established global institutions, and the rules and norms those bodies have promulgated and follow, also requires attention. With its various economic initiatives the CCP seeks to reinforce the emerging narrative that China is moving to the centre of global economic activity, strength, and influence even, paradoxically, as its own economy struggles to maintain strong momentum. China is keen to nurture the notion that a new global order is unfolding, and that the world expects that new order to more thoroughly incorporate Chinese influence and preferences. There is also a growing global consensus that it is better to integrate China into established institutions rather than having China create more parallel constructs where it has the leading, or even sole, voice.

The case for the weak or not-as-strong-as-you-think China

Chapter 2 – The case for the weak or not-as-strong-as-you-think China

Until recently, conventional wisdom had it that the China juggernaut was unstoppable and the world must adjust to the reality of the Asian giant as a—perhaps the—major global power. This is reflected in Pew Global Attitude polls and a mini-industry of "China rise" books, all painting a picture of the 21st century world in which China is a dominant actor. The author has been uneasy with this narrative for some time. Over the past couple of years, a new genre of books has appeared which questions China's core strengths and the supposed inevitability of its rise to great power status.

Such skepticism is warranted. Recall that not so long ago, in the 1980s, similar forecasts were made about Japan being "No. 1" and joining the elite club of great powers. The country then sank into a three-decade stagnation and was shown to be a one-dimensional power (economic) that did not have a broader foundation or national attributes to fall back on. Recall also that it was the Soviet Union that was said to be a global superpower (an assumption over which a half-century Cold War was waged), only for it to collapse almost overnight in 1991. The post-mortem on the USSR similarly revealed a largely one-dimensional power (military), a country afflicted by internal weaknesses and external overstretch, and a system that had atrophied from within for decades. In the wake of the Cold War, for a while, some pundits posited that the expanded and strengthened European Union would emerge as a new global power and pole in the international system—only for the EU to prove itself impotent and incompetent in meeting a range of global and regional challenges. Europe too was exposed as a largely single-dimensional power (economic).

When it comes to China today, a little sobriety and skepticism therefore seem justified. At a minimum, it behooves analysts to carefully examine the premises on which such bold prognostications of China as a world power are based.

It is true that China is the world's most important rising power, far exceeding the capacities of India, Brazil and South Africa. In some categories, it has already surpassed the capabilities of other "middle powers" like Russia, Japan, Britain, Germany and France. By many measures it seems that China is now the world's

undisputed second leading power after the United States, and in some categories has already overtaken the US. The country certainly possesses many of the trappings of a global power, with a number of "firsts" or "seconds" which will not be listed here for brevity's sake.

By many measures of *capabilities*, China is seemingly a leading global power. It is certainly more than a one-dimensional power. When scrutinised carefully, though, I argue that China's intrinsic strengths and aspirations to great power status exhibit multiple and profound weaknesses. When China's capabilities are carefully examined, they are actually not so strong. Many indicators may be quantitatively impressive, but they are not qualitatively so. It is the lack of qualitative power that translates into China's lack of real influence.

Major weaknesses include the following:

- Numerous economic problems, including: falling GDP growth rates; failure to implement the vast majority of Third-Plenum reforms and thus to "rebalance"; falling into the middle-income trap; inefficient use of factor endowments; dangerously high levels of debt (282 per cent of GDP); a distorted and inefficient financial system; excess capacity; asset bubbles; inefficient labour and capital markets; the end of the "demographic dividend" of an inexhaustible labour supply has now given way to an ageing society; rising capital out-flight; inefficient SOEs; poor innovation; and other maladies. To be certain, China has many economic strengths, but it also has many intrinsic weaknesses.

- A very weak, fragile and insecure political system and ruling Communist Party that is in a state of progressive, even accelerating, atrophy and decline (although it may not recognise it). After a decade of political reform (1998-2008), the regime has reverted to intensified repression and dictatorial rule.

- A volatile and potentially unstable society: ethnic unrest; rising incidents of mass unrest (180,000 last year); pronounced inequality; a moral vacuum and alienated society; disenfranchised migrants; and other social challenges.

- An insular, non-cosmopolitan culture and weak-to-nonexistent soft power.
- A military with increasingly sophisticated and impressive hardware, but very questionable "software" (eg, command, control, communications, computers, intelligence, surveillance and reconnaissance.
- Very limited capacity for innovation (the key to escaping the middle income trap).
- Diplomatically, China is a "lonely power"—a major power that has no allies (save North Korea), no real close partners (other than Russia, and even there...), very nervous and suspicious neighbours, as well as ambivalent foreign relations with the US and many other countries.

Other measures of China's domestic capacities also do not indicate very high or positive global rankings.

- **Governance:** Since 2002 the World Bank's composite Worldwide Governance Indicators have consistently ranked China in the 30th percentile for political stability, 50th percentile for government effectiveness, 40th percentile for regulatory quality, 30th percentile for control of corruption and rule of law, and 10th percentile for accountability.
- **Freedom of Press:** 179 out of 191 countries and 86th out of 91 for Internet freedom (Freedom House 2013).
- **Higher Education:** Only three universities in global Top 100 (*Times of London* rankings).
- **Business Competitiveness:** The World Economic Forum ranked China only 29th globally on its composite Global Competitiveness Index in 2013, 68th for corruption, 54th for business ethics, and 82nd for accountability. Transparency International ranks China even lower (80th) in its 2013 international corruption index.
- **Brands:** *None* in the global top 100 (Business Week/Interbrand).

- **Socio-economic Standing:** The United Nations 2013 Human Development Report ranks China 101st in the overall human development index (out of 187 countries surveyed). The Gini coefficient in 2012 was 0.47, among the highest in the world.

By these and other measures, it is clear that China's global presence and reputation is mixed at best. In many categories China finds itself clustered together with the least well-performing and least respected countries in the world.

> *It is the lack of qualitative power that translates into China's lack of real influence.*

These observations are not meant to belittle China's miraculous developmental accomplishments over the past three decades, but they are simply reminders that China is nowhere near the top of the global tables in many categories of development. Taken together, these domestic and global indicators make abundantly clear that China remains far from being a global power—and lags well behind the United States in virtually every category of power and influence. Depending on the category, it also lags well behind a range of other modern nations.

So when I look at China, I see *weaknesses not strengths*. I see fragility and volatility. I see insecurity, nervousness and political paralysis. On the surface, yes, China's party-state does its best to project an image of strength and confidence, but I believe it is a false construction and we should not be taken in by it. When one scratches beneath the surface of the many impressive statistics about China, one finds pervasive vulnerabilities, important impediments and a soft foundation on which to become a global power. The Chinese have a proverb—*waiying, neiruan*—hard on the outside, soft on the inside. That sums up China today, and increasingly into the future. China may be a 21st century paper tiger.

Moreover, capabilities are only *one* measure of national and international power, and not the most important one. Generations of social scientists have determined that a more significant indicator of power is *influence*: the ability to shape events and the actions of others. Capabilities that are not converted into actions towards achieving certain ends are not worth much. It is the ability to influence the actions of another or the outcome of an event that matters. Power, and the exercise of it, is therefore intrinsically

relational—the use of instruments towards others in order to influence a situation to one's own benefit.

Thus, when we look at China's presence and behaviour on the world stage today, we need to look beyond its superficially impressive capabilities and ask whether China is, in fact, *influencing* the actions of others, the train of events and trajectory of international affairs in various domains.

The short answer is, I find: not much, if at all. In very few—if any—domains can it be concluded that China is actually influencing others, setting global standards or shaping global trends. I will credit the Chinese government with beginning to do more in addressing global governance problems—but this is a rather recent trend. China remains a generally passive power, whose reflex is to shy away from challenges and hide when international crises erupt.

Whether measuring by capability or influence, China still has a very long way to go before it can be considered a global power. Ten or twenty years from now, China's global position may well improve and it may be operating on a global basis similar to the United States. But for now it remains a partial global power at best.

Finally, one should not simply assume that China's growth trajectory will continue unabated. It could, but there are also other possibilities, including stagnation or retrogression. This is what I actually foresee for China: the current "hard authoritarian" path causing *relative* economic stagnation, rising social instability and political paralysis. Without significant political liberalisation, China's growth will stall, rebalancing will not succeed, innovation will be marginal, the middle income trap will become a permanent condition, a variety of social frictions will become more acute, the talented and wealthy will leave the country in increasing numbers, and China will fail to replicate the impressive growth of the past three decades.

Politics is *the key variable* for China's future. On the one hand, the CCP can attempt to manage political opening from above (as they were doing from 1998-2008), and hence address its economic and social problems. On the other, it can resist such an opening, continue on its hard authoritarian path, and thus stagnate economically, atrophy politically and become unstable socially.

China faces a sobering and daunting set of challenges for its people and government to tackle. Observers should not blindly assume

that China's future will exhibit the dynamism of the past thirty years or that its path to global power status will necessarily continue. It could very well replicate the past performance of Japan, the Soviet Union or the EU when they were touted as global powers.

Understanding contemporary China

Chapter 3 – Understanding contemporary China

We know more and more about the People's Republic of China (PRC) as this country has become much more open to the outside world in recent decades. The flow of information, media reports and scholarly works keep increasing. Although we may be better equipped than before, do we really understand the country? Do we use the right sources of information? Do we ask ourselves the right questions? How can we deepen and improve our understanding of contemporary China?

China has always been diverse and complex, but it is even more so today. We must therefore be cautious and skeptic as we seek to understand this new global player: cautious before making sweeping generalisations on a particular issue without having weighted the broader context; and skeptic about the reality we think we are observing and even more about the words that we hear, particularly when they are uttered by Chinese government officials or official scholars. Discourse and narratives need to be studied but more for what they represent than for what they claim to describe.

Trained as a political scientist, the author will not presume to discuss in any depth the state of the economy. However, the recent economic slowdown has taught us that it is risky to make linear predictions about the future size of the gross domestic product, particularly as China moves from one growth model to another. The impact of local governments' financial difficulties on the PRC's overall financial situation or of over-supply in the housing sector on the economy may have been exaggerated but the author will defer to economists to tell us more about these issues. Two other questions probably require more attention than they have received up to now: recent changes in agriculture and the job market, as well as the possible increase of unemployment as migration to smaller cities intensifies.

Chinese society has been completely transformed in the last three decades and several issues deserve further scrutiny. They include the impact of urbanisation, better education and ageing on people's way of life and, more importantly, their mindset. The authorities emphasise the need to establish trust in their relations with their constituents but trust is sorely lacking, hence the centrifugal trends in every local community; the revival of religious and associative activities; and the crucial importance of

connections (*guanxi*) to achieve any success. These issues have all been studied at length, but their political consequences need much more attention.

The Chinese Communist Party (CCP) appears to be a powerful machine that has to date demonstrated great resilience against any destabilising forces and a strong capacity to reform and adapt to the new socio-economic environment it has created. Since Tiananmen, and even more so since Xi Jinping came to power in 2012, a "new authoritarian equilibrium" appears to have been established in the country. But appearances can be deceiving. For example, by fighting corruption and initiating an impressive list of reforms, Xi is desperately trying to improve the efficiency of a political system that, as the Soviet Union under Gorbachev, may be facing existential challenges. Should Xi fail to overcome the formidable resistance of various vested interests in China, he may either lose power or turn into a Gorbachev *à la* Chinese—or both.

After more than 30 years of reforms, the Chinese political system remains opaque. This is especially true of the CCP, but less so the weaker government system—the party's "state facade"—or the CCP-controlled state-owned enterprises (SOEs). Mimicking the state, the CCP publishes regulations, decisions, lists of leaders and promotions, and biographies. Nevertheless, we still do not know how decisions are actually taken, how officials are chosen and promoted, how CCP cells and branches operate, how the CCP finances itself, just to take a few examples. The party constitution is of little help in this regard. In the last decade or so, reports about sales of civilian and military positions have become more frequent, but we remain in the dark about the magnitude of this phenomenon. What it shows at least is that clientelism, *guanxi* and family connections are not the only factors taken into account for promotion in the CCP-led bureaucracies. Money still matters.

Corruption is also difficult to comprehend fully. We know that it is widespread; we understand that Xi Jinping is serious about combatting it and that he has gained additional legitimacy by fighting it. But many questions remain: are the CCP data about the number of fallen officials reliable? They are by definition impossible to ascertain. Why have corrupt leaders such as Bo Xilai, Ling Jihua or Guo Boxiong been able to enjoy impunity for so long? They were protected but the next question is obvious: are the officials promoted by Xi less corrupt, or just more obedient?

In other words, the CCP is a huge black box, or to be more accurate, a collection of unevenly connected black boxes. To some extent it operates like a compartmentalised secret society. Consequently, comparisons with the way mafias are structured, become reorganised and transfer power may be more useful than researching CCP governance (*zhili*) or the modernisation of its system for the management of cadres.

> *...are the officials promoted by Xi less corrupt, or just more obedient?*

Caution and skepticism should also be applied to local politics, as demonstrated by the upbeat and overly optimistic conclusions drawn by a large body of research into the impact of a new and reform-minded village-organisation law that was enacted in 1987. The Wukan protest in Guangdong in 2011 constituted a vivid denial of the assumption that most village chiefs in China were democratically elected. As the reform package of the Hong Kong Chief Executive election proposed by Beijing has clearly shown, the CCP supports elections as long as it can shortlist the candidates and therefore predict the results.

Finally, researchers have not focused sufficiently on the population's political expectations and culture, in no small part because of the strict restrictions imposed on conducting political surveys and opinion polls. However, there are not enough analysts like Shi Tianjian—the now-deceased Chinese political scientist who researched his countrymen's "political values". His most fascinating finding: around 2006, 84 per cent of Chinese thought that the People's Republic was already "democratic" and 66 per cent believed that their democracy would continue to "deepen". The author believes that there is a lack of democratic culture in China today; most Chinese have become consumers but not necessarily citizens. China's traditional political culture partly explains this state of affairs, but in a political system in which amnesia, selective memory and reconstructed narratives about the past (in particular the late Qing and Republican periods) have become the pillars of the rulers' legitimacy, more research is needed to illuminate the PRC's Soviet heritage and influence on the contemporary Chinese mindset, approach to politics and nationalism.

The lack of interest in politics on the part of most Chinese is understandable because it is a risky business. Consequently, one should not over-interpret the importance of the rights-protection movements (*weiquan yundong*) and their lawyers (*weiquan lüshi*).

These are courageous exceptions to the rule. For these reasons, political activism has remained marginal in China. But as the 2014 Hong Kong Umbrella Movement shows, societies can rather rapidly become politicised.

To gain a deeper understanding of China, it is preferable parsimoniously to put together the pieces of the immense puzzle that the country represents today, rather than try to exploit and interpret large sets of quantitative data based on mathematical formulas. It is more useful to gather meticulously, evaluate and compare a considerable (and increasing) number of monographs and other studies based on research in the field, and interact with as many Chinese as possible, be they officials, scholars, city dwellers or farmers, civilians or soldiers, northerners or southerners.

In addition to the challenges facing the PRC on the economic and political fronts, the country is pursuing unprecedented international ambitions. It sees itself as the only power able to really balance and eventually supplant the United States. At least this is the "dream" that Beijing puts forward. Whether it will be able to achieve this goal is another story. For now, it focuses on consolidating the maritime domain it claims and its position as Asia's main power. The economic slowdown, however, may force it to scale-down some of its most ambitious projects such as the One Belt One Road initiative. However, the linkage between the CCP's international objectives and its determination to maintain its political monopoly of power at home deserves further attention.

In many respects, understanding contemporary China is like trying to shoot at a moving target. The country keeps changing and it is becoming more and more time-consuming just to stay abreast of developments. What is crucial at the end of the day is to remain alert and ready to question assumptions that may have become too obvious to be questioned. In other words, caution and skepticism are essential in assessing China, its success, power and potential vulnerabilities.

Demographics and challenges facing China's youth

Chapter 4 – Demographics and challenges facing China's youth

After the violent suppression of the 1989 Tiananmen movement, the Chinese Communist Party (CCP) shifted the focus of China's national education away from socialist ideology and class struggle towards a nationalistic narrative that emphasises China's victimhood at the hands of foreign aggressors. At the same time, it launched sweeping market reforms and integrated China further into the world economy. The tacit bargain the CCP offered its people was simple: we will let you get rich and make you proud to be Chinese, so long as you stay out of politics.

Since 1989, that bargain has held firm, with young Chinese apparently too focused on material comfort and distracted by nationalism to present an existential challenge to the CCP. But today that bargain is beginning to stretch as a young generation born after 1989 comes of age and is expressing more individualist and rebellious tendencies. This could be an especially tumultuous mix in coming years as China's socio-economic reality falls well short of the expectations of its youth.

From 1990 to 2015, China's per capita annual income grew from USD 300 to more than USD 7,500. During this period, the generation that lived through the Maoist period—often at subsistence levels—achieved a degree of economic and political stability never before seen in the country. For this generation, the newfound material comfort indeed served as a pacifying force.

But for their children—those born in the 1980s and 1990s—relative material comfort is increasingly being taken for granted. This young generation bears no scars of starvation and political upheaval and is beginning to seek more from life than the material progress that kept older generations content.

This search for a more meaningful life can be quantified in many different ways. One survey conducted by J. Walter Thompson (JWT) Intelligence in 2013, for instance, found that 63 per cent of Chinese aged 18 to 35 say, "A lot of people my age are seeking jobs that give back to society". Similarly, in contrast to trends in the developed world, young Chinese are searching for higher meaning more than their elders. As of 2007, 62 per cent of China's religious believers were aged 16 to 39.

These dynamics have led to a severe generation gap between China's youth and their parents, who still overwhelmingly want their children simply to find a good, stable job, a spouse, and settle down. One young Chinese woman studying in New York as an aspiring writer recently explained to me that her non-lucrative career choice and unwillingness to rush into marriage was putting her at odds with her family. "My parents want me to pursue materialism, but I want to pursue meaning", she said. She is hardly alone. According to the same above-mentioned survey, 74 per cent of Chinese aged 18 to 35 say, "I have more in common with young people in other countries than with old people in my own country".

> *As of 2007, 62 per cent of China's religious believers were aged 16 to 39.*

Another side effect of growing up amid China's post-Mao economic growth is that Chinese youth have lost the respect and fear of authority that their parents had. Up through the 1990s, the *danwei* (work unit) had immense power over the personal lives of Chinese citizens. This was the first level in the CPP hierarchy and it was meant to connect every individual to the whims of the government. The *danwei* distributed benefits, granted permission for marriage and travel and even monitored reproductive activity and ideology. Stepping out of line and failing to conform to the party line could have serious adverse effects on people's lives.

However, amid market reforms that gave rise to private enterprise and lessened the importance of the state as an employer, the power of the *danwei* began to collapse. Today, Chinese youth have come of age without the instinctive fear of Big Brother peering over their shoulder or the risk entailed by expressing non-mainstream opinions and behaviors. They also have no memory of the witch-hunts that accompanied the Cultural Revolution (1966-1976), during which any challenge to the prevailing orthodoxy could result in persecution. And they have little memory of the bloodshed at Tiananmen, which scared Chinese away from mass demonstrations for a generation.

Furthermore, new communication channels have resulted in a young generation that has been influenced by information and narratives that transcend censors and challenge the CCP line. From 2000 to 2015, Internet penetration went from less than 2 per cent to nearly half of China's population. This is even more acute among teenagers, nearly 80 per cent of whom are now Internet users.

These dynamics have resulted in Chinese youth becoming increasingly individualistic, rebellious and uninhibited to speak up when they see things that are not the way they believe they should be. According to the JWT survey, 78 per cent of Chinese aged 18 to 35 say, "My generation isn't afraid to take up a cause and 'do it ourselves' if higher powers fail to act quickly/adequately".

This has manifested itself in a multitude of ways, ranging from coordinated online campaigns to street demonstrations. Young social activists pushing causes like feminism, LGBT rights, assets disclosure for officials, environmental protection and government accountability have found a great deal of support. A number of (mostly youth-led) street movements over environmental issues involving tens of thousands of protestors have broken out in major cities, starting most notably with the 2007 anti-PX chemical plant demonstrations in Xiamen. More significantly, in 2013, after the liberal newspaper *Southern Weekend* lashed out at its local propaganda chief for particularly intrusive censorship, students from across the country uploaded messages of support for the paper. Scores posted pictures of themselves—faces shown—in support of press freedom. Hundreds even showed up in person to demonstrate outside the newspaper's Guangzhou offices.

A 21-year-old college student named Liao Minyue, who had organised an online campaign during which she and fellow students posted pictures of themselves holding signs supporting imprisoned human rights lawyer Pu Zhiqiang, explained to me that while such bold activism is still rare among people her age, it is quickly becoming much less so. Activists like her are no longer the pariahs they once were. "One improvement over the past is that young people are willing to talk about topics that they wouldn't have dared breach years earlier", she said, citing discussion of the Tiananmen Square crackdown as an example. "Post-90s Chinese have a much stronger desire to learn and innovate, and they're willing to bypass the constrained education to learn the real history. So I think there is great hope for post-90s to promote democracy and constitutionalism".

The growing desire for meaning, personal fulfillment and social progress beyond financial affluence among Chinese youth, coupled with shrinking inhibitions to speak up, are beginning to clash with a socio-economic reality that is becoming much tougher for them in many ways and thwarting their drive towards personal fulfillment. According to independent estimates, China may have a Gini Coefficient as high as 0.61, making it one of the most unequal

societies in the world. This accumulation of wealth among a small circle of elites and the nepotism and corruption that accompany (and enable) it are often acutely felt by young Chinese entering the workforce. In a 2013 poll, 80.4 per cent of those surveyed in China believed that young people who achieve career success do so because of their family connections. Only 10 per cent thought that hard work, creativity and academic achievements beat having a well-connected father. This is exacerbated by widespread unemployment among recent college graduates. Every year, the number of college graduates has been growing by about 250,000, and every year there are significantly fewer white-collar jobs awaiting them. The promise that a college degree would result in comfortable, fulfilling and well-paying work is widely being broken.

Furthermore, because of the one-child policy, China is experiencing a demographic bottleneck that sees the labour pool shrink by 3 to 4 million workers each year as the Mao-era baby boomers retire and give way to the smaller millennial generation. This is putting tremendous pressure on young Chinese—often in a so-called "4-2-1" situation, with each child being expected to care for two parents and four grandparents.

Then there is the gender imbalance, which currently consists of roughly 20 million more marriage-age men than women in China—a number that will continue to grow by about a million every year for decades to come. The astonishing number of young men who will be denied the basic human desire for a mate has created a situation unprecedented in human history, and raises grave concerns about the future stability of China. As *Science* magazine writer Mara Hvistendahl put it in her book *Unnatural Selection: Choosing Boys Over Girls, and the Consequences of a World Full of Men*: "Historically, societies in which men substantially outnumber women are not nice places to live. Often they are unstable. Sometimes they are violent". China's own history provides plenty of cautionary tales. In the 19th century, a gender imbalance caused by famine and selective neglect of daughters is thought to have helped enable rebellious movements including the Taiping Rebellion, Nien Rebellion and Boxer movement.

> *While young Chinese tend to be very patriotic, patriotism should not necessarily be conflated with support of the CCP.*

Those who believe nationalism will be a hedge against instability and challenges to the CCP domestically need only look back at events over the past century like the May 4th Movement of 1919, the December 9th Movement of 1935, and the anti-Japanese and anti-African protests of the mid-1980s. In all these cases, intense nationalistic protests directed at foreign perpetrators turned against domestic leaders thought to be corrupt and ineffective in the face of foreign intrusion. While nationalism may periodically be a useful weapon in the CCP arsenal, it is a dangerous one that can easily backfire. While young Chinese tend to be very patriotic, patriotism should not necessarily be conflated with support of the CCP.

What these dynamics mean and how things will unfold in coming years is anyone's guess. But growing demands and boldness among China's youth cohort, coupled with a socio-economic landscape that is increasingly standing in the way of their ambitions, could profoundly influence China's future.

The ideological campaign in Xi's China: Resurrecting Maoism, censorship and regime legitimacy

Chapter 5 – The ideological campaign in Xi's China: Resurrecting Maoism, censorship and regime legitimacy

When President Xi Jinping came to power in 2012, some liberal intellectuals hoped that he would push for political reform and limit the Chinese Communist Party's (CCP) monopoly on power. But those hopes were dashed when Xi launched the largest campaign since Mao to champion an official ideology that relies on a blend of communism, nationalism and Leninism to reinvent the party, maintain political stability and ensure national cohesion. The ideological campaign has drawn criticism from liberal intellectuals who see the resurrection of a Mao-style "one-voice chamber", with Xi as the new emperor wielding the knife to stifle Western ideas and impose orthodoxy. While looking to Mao for inspiration, however, Xi cannot bring China back to the era of the Great Helmsman, given the fundamental socio-economic changes that have taken place since then. Rather, the campaign is designed to draw on elements of Mao's legacy to preserve Deng Xiaoping's evolutionary, rather than revolutionary, path to change. Xi aims to rebuild the legitimacy of a regime that is increasingly vulnerable to economic slowdown, public anger about corruption and challenges from liberals impatient for political change. This campaign is therefore an embarrassing confession of the regime's fragility.

Calling for an ideological struggle

Xi's campaign started in December 2012 when he warned that the Soviet Union's collapse had been brought about in part by the fact that almost all party members in the USSR no longer believed in the communist ideology. Reserving scorn for Gorbachev's failure to defend the party, Xi complained that "Nobody was man enough to stand up and resist" the anti-communist forces in the Soviet Union.

To avoid the same mistake, Xi made two important speeches soon after. His 5 January 2013 speech proposed "two undeniables": "the historical period after economic reforms [in 1978] must not be used to deny the historical period before economic reforms; and the historical period before economic reforms must not be used to deny the historical period after economic reforms". His second speech on 17 March 2013 proposed "three confidences": confidence in the theory of socialism with Chinese characteristics;

confidence in the road the country is following; and confidence in the current political system.

Since then, Xi has continued to call for an ideological struggle. Most of his speeches have been relayed as Party directives and widely circulated on the Internet. The most important directive was "Document No. 9" issued in April 2013, which ordered officials to combat the spread of seven subversive currents coursing through Chinese society and instructed "Seven Don't Speaks". Those are: Western constitutional democracy; universal values of human rights; Western-inspired notions of media independence and civil society; ardently pro-market neo-liberalism; and nihilist criticisms of the Party's traumatic past.

Another widely circulated Xi speech was made at the national propaganda work conference held on 9 August 2013. Calling on the whole Party to emphasise ideological work, Xi warned against the intensified cultural and ideological infiltration being carried out by Western countries.

Borrowing from Mao's tactical playbook, Xi launched a mass-line campaign to enforce party authority. Harkening back to the Maoist era when officials were required to get close to the masses and to know their needs and demands intimately, Xi urged that cadres "should focus on self-purification, self-improvement, self-innovation, self-awareness" or, as he put it in a folksy way, "watching from the mirror, grooming oneself, taking a bath and seeking remedies".

The resurrection of the Maoists

The return of an official ideology has encouraged Maoist ideologues. While their direct influence on the CCP leadership has been circumscribed, they have served as the Party's eager ideological inquisitors against beleaguered liberal academics, journalists and rights activists. As Xi's ideological campaign gained momentum, Maoist ideologues directly targeted liberal intellectuals and Western values, warning that a more open environment had led to the emergence of a variety of social thoughts opposed to official ideology.

These warnings have provided the background for the popularisation of a new term, "cauldron destroyers", referring to those "eating the Communist Party's food but smashing the Communist Party's cauldron". Maoist ideologues have threatened

to use "the dictatorship of the proletariat" to suppress liberals. Class struggle remains the "main line" today "that cannot be extinguished". The hilt, a term referring specifically to the organs of dictatorship from the Mao era, has appeared in the *People's Daily*.

Media control and censorship

The media is a prime target of the ideological campaign. Xi Jinping has ratcheted up pressure on journalists working in both traditional and new media, calling upon them to stop criticising the Party, emphasise "positive reporting" and "speak with one voice" in support of Party policies.

The authorities have viewed establishing control over social media and the Internet as a top priority since the latter have often been more effective than state media in setting the agenda for public opinion. In a bid to exert influence over virtually every part of the Chinese digital world, Xi called for building a strong Internet army on 19 August 2013. The Chinese government insists on "cyberspace sovereignty", the right of each state to regulate its own cyberspace and manage the flow of information into, around, and out of its country, as new communication technologies shatter spatial and temporal constraints and blur the distinction between author, publisher and audience of information.

The authorities target both the Internet's content and technology. They have never revealed the size of the Internet army but one estimate by *New Beijing News* suggests that it was about two million strong in 2013. Its ranks include the Internet police, Internet commentators, and Internet content examiners who monitor the web to promote the government narrative and block "unhealthy content". The most renowned unit within the Internet army has been the "50 Cent Party": Internet-literate youths who patrol the web for negative news and opinion, then refute them with positive information. They are paid 50 Chinese cents for each post. The Ministry of Public Security announced in August 2015 its plan to set up "cyber-security police stations" in important website and Internet firms.

> *In a bid to exert influence over virtually every part of the Chinese digital world, Xi called for building a strong Internet army on 19 August 2013.*

The government has provided financial and policy support to develop domestic semi-conductor firms and servers so as to better control the technology. In addition, Beijing has built the Great Firewall and a system to filter keywords typed into search engines; blocked access to sensitive web sites, including many foreign publications; and closed Virtual Private Networks (VPNs). Internet tools that people across the world use to stay connected are replaced by heavily-monitored Chinese counterparts such as Baidu, Wechat, Weibo, QQ, Youko and Renren, where criticisms of the CCP are blocked and can even lead to police interrogation or jail time. To create a climate of fear and self-censorship, the government requires users to register in their own names, thereby avoiding the anonymity that has been a key element in social media in many countries. Users are fully aware that they live in a surveillance society and are explicitly warned of the dangers of accessing "unhealthy content" or forbidden web sites. Internet cafés are held responsible for the activities of their patrons.

Propaganda campaign in universities

Another primary target of Xi's ideological efforts is higher education. The campaign started in November 2014 with the publication of an article in *Liaoning Daily* titled "Teachers, Please Don't Talk About China Like That: An Open Letter to Teachers of Philosophy and Social Sciences". The article accused university lecturers across China of being too "negative" about the country and criticised universities for their ideological laxity. Xi confirmed this new ideological battleground in a speech he delivered at the national higher-education Party-building conference in December 2014. Calling for "positive energy" and a "bright attitude" towards the CCP and the state, Xi urged the Party to turn universities into a breeding ground for Marxist studies.

On 19 January 2015, the General Offices of the CCP Central Committee and the State Council issued Document No. 30, which summarised Xi's speech, demanding that Party control be strengthened and that universities be cleansed of Western-inspired liberal ideas. Encouraging the Party to "Not (be) afraid to draw the sword and take the responsibility of guarding the soil", the document urged that university teachers and students adopt the "Three Identities", namely the theoretical, political and emotional identities.

The Minister of Education, Yuan Guiren, then proposed in a speech on 29 January 2015 the "Two Reinforcements": "Reinforce the

management of ideology in universities" and "Reinforce the management of the use of Western teaching materials". He specifically called for an enhanced management of the original Western textbooks.

As part of the campaign, the CCP Central Organisation Department, Central Propaganda Department and Ministry of Education issued a joint circular in July 2015, requiring leading officials at the municipal level and above to speak to university students at least once every semester. Chen Miner, Party Secretary of Guizhou province, became the first senior official to do so when he addressed students at Guizhou University on 10 September 2015.

Political loyalty has become the top criteria when hiring professors and recruiting students. The Ministry of Education now requires that universities interview student applicants for the 2016 master's program who have passed their admission exams to ascertain that they are also politically qualified to undertake the studies. If necessary, the universities may send personnel to the candidate's locality to investigate their political attitudes.

The campaign has had a chilling effect on Chinese academia: scholars have been self-censoring or completely avoiding certain topics while many journals have shunned potentially controversial issues altogether. In one extreme case, a university in northwestern China banned Christmas celebrations, calling it a "kitsch" foreign celebration unbefitting the country's own traditions, and made students watch propaganda films instead.

Conclusion: Neo-authoritarianism 2.0?

Although the campaign represents a disheartening turn for those who had hoped that a period of greater relaxation was on the horizon, it is almost impossible for Xi to effect a full return to Mao's era. Shanghai Normal University Professor Xiao Gongqing has called Xi's model "neo-authoritarianism 2.0, an enhanced Deng Xiaoping model".

> *While opposing Western values, Xi has not successfully advanced a coherent ideological alternative.*

Political stability and regime survival are Xi's major concerns. Xi's tightening ideological control is designed to ensure that as social unrest increases due to the economic downturn, there is no single

spark to start a prairie fire. Xi has therefore intensified the trend started under Hu Jintao when the maintenance of stability became the regime's main goal. In particular, the regime has blamed hostile Western forces and their infiltration into the ideological sphere for all of China's domestic problems. This fits a pattern of blaming the West in general, and the US in particular, that dates back to the Mao era.

The campaign's results are mixed. Forceful propaganda can deter dissent but not necessarily create true believers. While opposing Western values, Xi has not successfully advanced a coherent ideological alternative. This is clearly demonstrated in the socialist core values released by the Xi leadership in 2013 and posted everywhere in China, which include "prosperity, democracy, civility, harmony, freedom, equality, justice, the rule of law, patriotism, dedication, integrity, [and] friendship". The list reads more like an ad-hoc patchwork than a coherent vision; it reflects anxiety more than confidence.

China's economic vulnerabilities

Chapter 6 – China's economic vulnerabilities

The dominant narrative about the Chinese economy has two components. The first is that data on economic performance are falsified or otherwise erroneous and that the current slowdown is worse than previously thought, with annual growth possibly at only 4 per cent, far below the officially claimed 7 per cent of the first half of 2015. The second component of this narrative is that further weakening is likely, and because of China's global economic role this weakening could trigger a global recession. This narrative is fed by weak industrial growth—6.3 per cent in the first eight months of 2015 compared to the same period in 2014, continuing the softest stretch in 15 years—and electric power output growth of only half of 1 per cent in the first eight months, probably an all-time low.

But these pessimistic assessments fail to take into account that for the past three years services, rather than industry, have been the main driver of China's growth. By 2014, services accounted for 48 per cent of China's gross domestic product (GDP), a substantially larger share than industry, which accounted for only 36 per cent of GDP. According to official data, in the first half of 2015 value added in the service sector alone grew by 8.4 per cent, accounting for 4 percentage points of China's overall 7 per cent growth. Is 8.4 per cent a plausible number? Some critics point to a sharp deceleration in auto sales and a slowdown in retail sales, arguing that the service sector "is not expanding fast enough to offset the contraction in the old and keep growth where the government says it is".

In principle we should expect China's service sector to be an ever more important source of economic growth. China is now classified as an upper-middle income economy by the World Bank. A vast majority of the population is more than adequately fed and clothed, so a rising share of consumption expenditures is on services rather than goods. For urban households, the share is now 40 per cent, twice the share of 20 years ago. Education, health care, entertainment and travel are key examples.

The main problem is that the growth of the service sector is hard to measure. Thus China's statistical authorities release this data only quarterly. This contrasts with the industrial sector for which the authorities release not only monthly data on the growth of value-added, but also physical output data for dozens of important manufactured goods as well as data on a half dozen or more items that reflect the growth of the other components of industry—

mining and utilities. Unlike in industry, the quarterly release of value added in services is not accompanied by disaggregated data on any of the 14 components of the service sector, or much data on individual services at all.

> *A 1 per cent increase in industrial output creates a half million new jobs while a 1 per cent increase in services output creates a million new jobs.*

However, the limited data the author has found on the service sector show rates of growth mostly in the double digits, suggesting that we should not quickly dismiss the claimed 8.4 per cent growth in the first half of 2015. Restaurant sales expanded almost 15 per cent in August 2015 year on year. In the first half of 2015, box-office revenue of China's movie theatres was up 50 per cent, reflecting the rapid expansion of consumption expenditure on the broader category of recreation and entertainment. While railroad freight volumes were down by 10 per cent in the first half of 2015, passenger traffic was up by 9 per cent and airline passenger traffic was up 13 per cent. Both of these metrics reflect the rapid growth of domestic tourism expenditures, which rose 15 per cent in the first half of 2015. More importantly, many Chinese firms see tourism as a major future growth area—investment in tourism was up 30 per cent during this same six-month period, roughly three times the pace of expansion of overall investment.

Because services are much more labour intensive than industry, the rising demand for services, in turn, has accelerated the pace of job creation in the modern sector. A 1 per cent increase in industrial output creates a half million new jobs while a 1 per cent increase in services output creates a million new jobs. Thus the number of new non-agricultural jobs created in the past few years is actually greater than when the economy was growing at double digit rates but led by the capital-intensive industrial sector. China created 7.18 million new non-agricultural jobs in the first half of 2015, a record.

This increased rate of creation of non-agricultural jobs has a two-fold effect on the wage share of GDP. First, wages in non-agricultural jobs are about three times earnings in agriculture. Thus, as the share of the workforce employed outside of agriculture rises, other things being equal, the wage share of GDP rises. Second, more rapid growth of demand for non-agricultural labour has meant that urban wage growth has remained strong even as the GDP growth number has slowed since 2010.

The rising wage share is the primary reason that the consumption share of GDP has now risen for five consecutive years. The pace of increase in this share is still modest, but it is a dramatic change from the decade to 2010 when the private consumption share of GDP fell continuously. More wage income means more consumption; an increased share of this consumption is on services; this leads to relatively faster growth of services output; this feeds back to a stronger demand for labour and thus to more wage income. This virtuous circle has helped to offset the drag on growth from industry, where growth has been slowing continuously since 2010.

It should also be noted that services are much less energy-intensive than industry. Industry requires six times more energy per unit of GDP than services. And roughly two-thirds of industry is heavy industry—ferrous and non-ferrous metals, heavy machinery, etc.—where the amount of electricity required to produce a unit of GDP is ten times that of services. So, since the structure of production is shifting from heavy industry to services, the famous Li Keqiang index of GDP growth, which has electricity as one of its three components (another is railroad freight transport) is now outdated and no longer a reliable guide to the pace of expansion of China's economy.

Other indicators, beyond those associated with services, suggest the assertion that China's growth is now or soon will be only 3 to 4 per cent is not well founded. The wages of migrant workers rose 10 per cent in the first half of 2015. This is quite remarkable because the sectors in which migrants are predominantly employed—construction and export processing—are clearly the slowest growing components of the Chinese economy. Another indicator is that the number of migrant workers employed outside of the native counties slightly expanded in the first half of 2015. This is in sharp contrast to the first half of 2009 when GDP growth slowed to 7 per cent and exports fell sharply, causing 20 million migrant workers on China's south-east coast to lose their jobs and return home.

While the more rapid growth of consumption and services has somewhat moderated the adverse effect of slowing industrial growth, a further correction in the property market is the biggest vulnerability facing the Chinese economy. Investment in housing has been slowing since 2010, when it expanded by 33 per cent, through the first eight months of 2015, when it expanded by only 3.5 per cent. This is the primary reason that demand for steel,

cement and other construction materials has slowed dramatically, leading to almost record slow growth of industrial output.

The frequently postulated collapse in the property market, however, is not materialising. Sales have picked up strongly, especially in the second quarter of 2015. As a result, the value of property sales was up 15.3 per cent in the first eight months of 2015, a sharp reversal from 2014 when the value of sales fell by 6 per cent. As a result, inventories of unsold property are now falling. New starts are down about 25 per cent in the first eight months of 2015, on top of a per-cent shrinkage in starts in 2014, but if strong sales growth is sustained, starts will improve (ie, initially fall by less and eventually turn positive) potentially leading to an end to the moderation in property investment. Thus the drag of property on GDP growth may moderate or even slightly reverse in 2016.

On the other hand, if the recent improvement in property sales proves transitory, investment in property in 2016 might decline in absolute terms on a year-over-year basis, further dragging down GDP growth by a percentage point or more.

In summary, the case that China's GDP growth is vastly overstated by official data is far from conclusive. This case typically relies on indicators such as the growth of freight transport and electric power output. These were relatively reliable guides to the underlying performance of the economy when growth was led by industry and investment. However, these indicators are not useful guides in an economy in which services have become the major source of growth. That being said, service growth has only partly offset the sharp slowdown in industrial growth since 2010. If growth of investment in property turns negative, industrial growth will slow further, leading to even slower expansion of China's GDP.

Xi Jinping's counter-reformation: Orthodoxy, discipline and the struggle to reinstate party norms

Chapter 7 – Xi Jinping's counter-reformation: Orthodoxy, discipline and the struggle to reinstate party norms

Analysts inside and outside of China struggle to decipher what Xi Jinping is really up to. Are his vaunted mass-line program and anti-corruption campaign sincere efforts to reform the Chinese Communist Party (CCP) and improve the governance of China? Or are they cynical, factional ploys to eliminate competitors and entrench Xi's own power? As some China specialists argue that "collective leadership" continues under Xi Jinping, this author argues that Xi is trying to reform the Party and make the Party work better. Yes, he insists on the prerequisites, the privileges and the power of the Party, but like a reforming pope he requires financial celibacy, doctrinal loyalty and obedient service. As one old colleague of the General Secretary puts it, Xi knows how very corrupt China is and is repulsed by the all-encompassing commercialisation of Chinese society, with its attendant *nouveaux riches*, official corruption, loss of values, dignity, self-respect and such "moral evils" as drugs and prostitution. It is no surprise that Xi might aggressively attempt to address these evils, perhaps at the expense of the new moneyed class.

We know Xi's campaigns have been tough on China's intellectuals and independent lawyers, but the loyalty he is demanding of them he is already demanding, and much more harshly, of Party members.

So, why attempt to address the "middle-income trap" that China faces in this way?

Xi Jinping's counter-reformation

Xi Jinping is choosing to employ 1940s techniques to address problems of governance in the 2010s. This is the rectification system the CCP first deployed in Yan'an between 1942 and 1944. But why rectification? Rectification is, essentially, the political Constitution of the Chinese government—in the British sense of a working constitution in national politics (as opposed to the formal paper constitution of the Chinese state). It is useful to think of political constitution in the terms that Peter Hennessy uses to describe the operation of British politics in *The Hidden Wiring* (1995): that peculiar combination of administrative measures used,

powers agreed upon and procedures deemed appropriate that tradition and practice have legitimated among top political actors.

In the CCP's case, the political constitution that rectification doctrine represents was built in the famous Yan'an Rectification Movement of 1942-44 that saw the confirmation of Mao's supreme leadership, but more importantly, the establishment of the measures, powers, and procedures—including collective leadership and governance by correct thought—that then made the CCP the most effective political administration and military force in China. The historian Philip A. Kuhn has drawn our attention in *Origins of the Modern State* (2002) to the significance of such an unwritten constitutional order for 20th century China that has dominated the concerns of China's politicians and thinkers. That constitutional agenda, Kuhn shows, addressed three key problems of governance: *participation*, *competition* and *control*. These issues form the three dominant challenges of modern Chinese politics: 1) how political participation and public mobilisation can be reconciled with enhancing the power and legitimacy of the state; 2) how political competition can be reconciled with public interest; and 3) how fiscal demands of the state can be reconciled with the needs of society.

The CCP's rectification doctrine and practice address these three challenges to the modern Chinese constitutional agenda. Political scientists, particularly Frederick C. Teiwes and Franz Schurmann have documented the centrality of this Yan'an agenda. They focus on the formal procedures known as rectification (*zhengfeng*), but the general term for this political constitution is known in the CCP as the political line, and in this case, the *mass line*. The Yan'an Rectification in the 1940s was an implementation of this mass line to address the problems of governance in modern China, questions of political participation, leadership competition, control of finances, officialdom and society. The Yan'an Rectification, like Xi Jinping's current mass line campaign, sought to unify thought and policy-making around one leader; infused these policies and political approach into the administration through a vigorous management-training regime (self- and mutual-criticism); enforced those norms with frequent police violence against infractions; and generated a popular image for the regime in the media to mobilise public support. It backed up all this political work with overwhelming military power on the one hand and really quite effective and productive administrative and economic reforms on the other. It was by no means perfect, nor was it without

drawbacks, not least the free use of terror. But it beat the competition.

In summary, the Yan'an Rectification addressed the challenges of modern China's constitutional agenda in the middle of World War II by proposing a novel package of ideology and organisation to explain what to do, how to do it and why to do it: *democratic centralism* to implement the mobilisation of cadres and citizens, the management of conflict, and the exercise of state control of economic and military resources; and *self-and-mutual criticism* among leaders and officials to ensure effective implementation of those ideological and organisational norms through unified, correct thought.

Rectification or the mass-line political order of the CCP is almost unimaginable to political theorists, politicians and the general public in the West. It is the profound acceptance of formal ideology and ideological remolding at the heart of rectification that stumps them. *At root, rectification politics depends on the power of correct thought and on the impact of a mobilised, faithful cadre of leaders.* When it appears to be working, it makes the CCP look like a religious organisation at best, like a cult at worst. The mental and emotional interventions into the minds of individuals that rectification requires in order to function effectively outrages Western sensibilities about individual autonomy and privacy.

Xi Jinping is employing this rectification politics right now among a Party population of some 88 million people in order to address challenges of political participation, leadership competition and control of the polity in today's People's Republic of China (PRC). This effort amounts to a counter-reformation in Chinese politics after the post-Mao retreat from the excesses of rectification mobilisation during the Cultural Revolution. Mao's campaigns, and particularly the Cultural Revolution, discredited the extreme and highly emotive versions of rectification and made a mockery of mass-line egalitarian claims. This led in the early post-Mao period to a search within the Party for *regularisation* of political life by a return to the explicit organisational norms of Leninism—essentially a version of military hierarchy. This was the work of Deng Xiaoping from 1975 and of Peng Zhen, who resuscitated "socialist legality" in the 1980s. This protestant revolt against the abuses of the "spiritual" side of rectification doctrine saw an emphasis on two things: socialist legality and technocratic leadership—law and science. This served to expunge the wild excesses of emotional ideology (that had become divorced from administrative

practicality) and produced a functional political package into the 1980s.

However, this protestant fundamentalism in Leninism—regulations combined with science—failed to address leadership competition or to control the behaviour of officials. In short, the absence of a compelling ideology made itself felt in leadership drift and growing official corruption. This came to a head in 1989 when public anger joined leadership dissention (and contingent factors, such as Gorbachev's visit to Beijing that also brought international TV news reporters to Beijing) to form a perfect storm and the major political crisis in China since Mao's death: Tiananmen. Since then, and in the absence of a democratic constitutional agenda, the CCP has struggled to find a new political constitution. In the 1990s, the separation of Party and state was mooted, but faced too many entrenched interests at the local level. Local elections and deliberative democracy have been tried over the past two decades to limited effect—the nomenclature that governs local officialdom moves local Party secretaries (the real power) away after two years: there is never momentum to break entrenched interests. Top leadership has espoused sensible policies: clawing back fiscal control in 1997, abolishing the agricultural tax in 2006, introducing insurance and pension reforms. However, these have not stemmed the rising tide of popular dissatisfaction at the gap between rich and poor, the frustrations with endemic local corruption that requires paying bribes to get things done, and the outrageous excesses of China's political plutocracy.

Bring on the rectification: a pure leader, incorrupt officials, a virtuous orthodoxy.

Prospect for rectification politics

What can we make of this counter-reformation in Chinese politics?

First, this is Maoism, but it is the institutional Maoism of Liu Shaoqi and Peng Zhen and not the charismatic populism of the later Mao. Put away your Little Red Book and dig out your dusty copy of Liu Shaoqi's *How to Be a Good Communist*. There is a substantial body of governance theory and experience underwriting today's rectification. This is a *serious attempt* to address the problems of governance, what we have called modern China's constitutional agenda, by reclaiming *control* over the economy and over the behaviour of the leadership, by channelling political *competition* among elites and by limiting popular *participation* to unthreatening

support roles in social welfare. This is Xi Jinping making good on his promise to save China by saving the CCP. Rectification is designed to save the CCP. Rectification is much more than "criticism sessions" or buying your own steamed buns and driving a Hongqi instead of an Audi. It is a comprehensive package of ideological unification, administrative control and police power. And its software is incompatible with the norms and assumptions of liberal democracy.

Second, this is political orthodoxy. Rectification talk is a public transcript for the CCP; it is the orthodoxy of the Party of Mao. As we can see in the Catholic Church, and indeed within the West's liberal democratic societies, the pieties of ideals coincide with abuse of and cynicism about them. Public declaration of communist values serves as a "public transcript" to promote identity and commitment among the ruling elite. These public transcripts, as other scholars have argued, have as strong a political role to play as the "hidden transcripts" of quiet dissent and resistance under authoritarian regimes. It is not particularly helpful to point out that Xi Jinping and his colleagues, of course, are closing their eyes to the facts of power politics—how many economists and political leaders in the West cleave to the doctrine that less government and more unrestrained markets alone will solve all problems, even though historical experience would cause most of us to question such blind faith?

> *Public declaration of communist values serves as a "public transcript" to promote identity and commitment among the ruling elite.*

Third, Xi's counter-reformation probably will not work, at least not in terms of rectification goals of moral-personal transformation and the pure governance of the mass line. Today's CCP leadership is embracing traditional values of the communist revolution to address very new problems. Just as Mao Zedong was unsuccessful in applying the economic policies of Yan'an to industrialisation in 1958, this is not going to work either. Rectification—with moral solutions for administrative problems, Party-run scriptural study sessions, and the demand for orthodoxy in public expression, all enforced through an independent inquisitorial police force—is no way to handle the challenges of an information society, the middle-income trap, or rising leadership in regional and global affairs. Westerners should understand why the rectification approach

makes sense to Xi Jinping, but that does not mean it will be successful.

Finally, the metaphor: a CCP counter-reformation. Like all metaphors this one, comparing the Catholic Reformation over a century from the Council of Trent to the close of the Thirty Years War in 1648 with the current efforts of the CCP since about 2010 and now associated with the rule of Xi Jinping, does not work in all respects. But metaphors are as useful when they fail as when they succeed. The failures: the "Leninist reformation" of the post-Mao reforms, is nothing like the challenge to the old order that Luther and the German princes were to Catholic Europe. However, this highlights the shared experience of Medieval Catholic and contemporary CCP leaders: the "rot" comes from within their own ranks and most, but not all, of their counter-reformation focuses on internal rot, corruption and loss of a sense of mission. Burning heretics and disappearing rights lawyers are a nasty, but secondary, part of the primary mission: institutional renovation. Most usefully, the counter-reformation metaphor draws our attention to the traditions of statecraft that inform not just Xi Jinping but a sufficient group of Party leaders. That corpus of governance techniques is rectification doctrine. If we dismiss this political software, we will be hard-pressed to make sense of Xi Jinping's administration.

China's fight against corruption

Chapter 8 – China's fight against corruption

Anti-corruption has become a signature theme of the general narrative of politics in the People's Republic of China (PRC) since 2013. It has closely been associated with Xi Jinping's leadership. The anti-corruption drive is notable because its target has been the ruling Chinese Communist Party (CCP) itself, and it offers the spectacle of a Party which strenuously and ruthlessly controls the space for political activity in China, articulating the idea of an opposition within itself that it then needs to eradicate. The drive against corruption has involved delicate questions of how an entity that privileges unity and wishes to be responsible for policing and regulating itself with no reference to external principles of moral validation, legislative legitimisation and ordering, can zealously pursue this goal without exercising self-protective restraint. In short, can the CCP be truly hard on itself without ceding space to an outside regulator?

The first issue is terminological. Chinese leaders have avoided the idea of temporal limits to the movement that started in 2013. It is something that is, like the Cultural Revolution, meant to be ongoing, achieving a fundamental cultural change in and improvement of the work style of the Party. It is predicated on the crucial role of cadres in the life of China and in the work of the Party. Leaders who are not selfless and who are in effect nurturing private networks of clients and patronage, based on their ability to deliver material wealth and, in effect, rob the Party and state enterprises of goods and profits, are the main enemy. So the events from 2013 onward are not a campaign, because there is in theory and no end to these efforts. They are built on the pragmatic recognition of human imperfectability (more Confucian then Mencian) and idealism about delivering a society where greed and venality will be militated against less by rules and laws than by the high personal standards and internalised moral codes of individual party members.

> *...can the CCP be truly hard on itself without ceding space to an outside regulator?*

In that context, discourse about anti-corruption is partially about cultural change. But even this has a political dimension as anti-corruption is intimately linked to the CCP's search for greater legitimacy at a time of growing inequality. It is a muted critique by

the current leadership of their predecessors, but not an overt attack. Under Jiang and Hu, the imperative was simply to drive for the primary stage of socialism where a base level of wealth was created. Under the current leadership, attention has to be paid to some of the consequences of this period of tremendous growth: the increasingly complex demands made by the public now that most are basically better off; their rising expectations; and the fact that the party is a liability because it is seen as part of the problem due to the poor behaviour of some of its leaders at a time of great promise and great challenge. Corruption threatens the secure rule of the Party and endangers its ambitions to deliver full modernity by 2049 and achieve national regeneration, the other core planks of the current grand Xi narrative.

It is a challenge to distinguish when the anti-corruption campaign is used as a tool to advance the CCP's corporate interests and when it is used to promote the leaders' personal agendas. So far, the highest profile victims have been recognised both as political targets and complicit in illicit activity: Bo Xilai, through his links to his wife's murder of a British businessman and his own heavy-handed network building with wealthy elements in Chongqing and Liaoning; Bo's reputed patron Zhou Yongkang who siphoned off immense wealth from the oil sector; and Ling Jihua whose son died in a scandalous car crash in Beijing in early 2012. Each of these cases can be linked to narcissistic or hedonistic behaviour, one of the four "evils" against which the anti-corruption drive has been aimed. Illicit wealth creation has also figured prominently. But such cases removed people who pose a political threat of varying degree to Xi Jinping in particular. In each case there remains enough ambiguity to see them as justifiable solely on the grounds of protecting the party, rather than an individual leader.

> *It is a challenge to distinguish when the anti-corruption campaign is used as a tool to advance the CCP's corporate interests and when it is used to promote the leaders' personal agendas.*

Anti-corruption is placed in a holistic political framework, an overarching political narrative. The campaign has to be understood in that context. It links back to the moral purpose of cadres which was first articulated as early as 1939 by Liu Shaoqi, one of the founding leaders, in his *How to be a Good Communist*. In this formulation, cadres were selfless servants, utterly committed to the Party's mission. However, at that time the CCP was a fugitive

force living under the constant fear of annihilation. Now, as the steward of the world's second largest economy, the source of 40 per cent of global growth in 2014, and an economy generating significant growth, the context is wholly different. In many ways, the message of self-sacrifice is much harder to convey now, because temptation is all around.

The levels of political capital spent on anti-corruption mean that, without a major leadership change, or a huge internal revolt and repositioning of political attention, this phenomenon is unlikely to go away. It has been linked to the CCP Fourth Plenum's (2014) attempts to build a system of rule *by*, rather than *of*, law. It seeks to impose a level of predictability over Party self-discipline and undercut the idea that it needs to be accountable or beholden to entities outside of it to enforce discipline. In some ways, it can be seen as the evolution of the intra-Party campaigns of the 2000s, although with considerable more bite. The rhetorical and theoretical commitment to the Party self-regulation is now replaced by a more visceral movement featuring villains with recognisable faces who are from the Party and are being hauled out and held up as proof that the Party can indeed discipline itself.

Despite the leadership's commitment to an unending drive against corruption, how long can it possibly last? Can the political capital gained at the present time be maintained? Can the drive avoid being overtly politicised, if it is not already? If it is successful in effecting a cultural change in the cadres' hearts and minds, then is the sustainable end-point a lower level of scrutiny, an institutionalisation of control and discipline? Have the last two and a half years so eroded confidence in free, innovative action by local cadres that they fear taking creative measures that might antagonise their superiors and be framed for corruption? Can the Party continue to impose the view that it provides an all-encompassing political and moral universe without the need to appeal to external principles and standards to legitimise and validate its moral principles?

There is little question at the moment that the CCP is committed to continuing this campaign. It has been popular, at least in the minds of its leadership, and has allowed the Party to forge new links with the public and provide a new avenue to legitimise their current rule. The campaign has been a good political asset, and has cut through some public cynicism about the CCP's years of more free-wheeling behaviour. But how far can a movement driven by such a holistic, grand, all-embracing vision, go? Such "vision politics" hark

back to the utopian views that marked the Maoist era, yet the setting has changed dramatically. During the Cultural Revolution, Liu Shaoqi and Mao envisaged cadres as new men, with new values and principles of action. Yet in reality, this caused misery and suffering. Although very different, the current anti-corruption drive is still haunted by this desire to create "new men [and women]". However, if such people can really be created, how will they eventually feel about the Party and its dominant role in society? Might they not ask for a new Party as well? That is the risk lurking in the current drive.

Factions: What are they good for?

Chapter 9 – Factions: What are they good for?

For decades factional analysis has been a mainstay of efforts to understand the politics of communist regimes, including China's. It continues to be the default approach to dissecting the politics of the Xi Jinping leadership today. Nevertheless, it has become increasingly clear that the methods of factional analysis are less successful than in the past.

Background

In the Mao Zedong and Deng Xiaoping eras, factional analysis of elite politics in the People's Republic of China (PRC) drew on the Kremlinological analytical techniques applied to the leadership politics of the Soviet Union. The evolution of the analytical approach applied in China closely followed shifts in related analysis of Soviet leadership politics. Thus, the premise of stable dictatorship under Mao Zedong in the PRC's early years mirrored the presumption applied in Western analysis of Stalin's seemingly unchallengeable position in the USSR. The fall of Nikita Khrushchev in 1964 at the hands of a triumvirate led by Leonid Brezhnev triggered a reconsideration of the premises of elite politics in favour of constant conflict in Soviet leadership politics. The authority and power of the top Soviet leader, the new analytical approach argued, was continually challenged by the ambitions of various factions, constituencies and other groups. Analysis of Chinese leadership politics under Mao followed suit in the mid-1960s, energised further by the record of leadership conflict exposed by the polemics and purges of the Cultural Revolution launched in August 1966.

Factional analysis of leadership politics in the PRC also rested on imagined continuities with politics in China's imperial era. These presumptions posited dubious continuities in political culture from the late imperial era into modern times that saw factions at "Mao's court" replicating factional politics under dynastic emperors, but that also ignored the vast differences between the scale, scope of authority and capacities of late imperial regimes and those of the PRC.

Whatever its evolving premises, factional analysis was demonstrably effective in dissecting leadership conflict in the later Mao Zedong and Deng Xiaoping periods and its impact on regime policies. For example, factional analysis worked well in

understanding on an ongoing basis the politics and policy battles following the 1969 9th Chinese Communist Party (CCP) Congress and the struggle to succeed Mao until 1976. Similarly, a factional approach also seemed to provide solid insight into the fracturing of the reform coalition led by Deng Xiaoping and the related policy battles of the 1980s.

Factional analysis and post-Deng leadership politics

Factional analysis has continued to be the default approach to understanding elite politics in the post-Deng Xiaoping era under Jiang Zemin, Hu Jintao and now Xi Jinping. It remains the mainstay of Western analysts as well as of their counterparts in Taiwan, Hong Kong and even among ordinary Chinese in the PRC. Nevertheless, factional analysis has been far less successful in providing coherent accounts of what has been going on in Zhongnanhai[1].

Factional analysis of Chinese elite politics today suffers from three major failings. First, the analysis suffers from a poor definition of what a "faction" is in China's current politics. In the late 1960s and early 1970s, it was reasonable to speak with confidence of a Lin Biao faction composed of officers in the People's Liberation Army (PLA), especially in the Air Force; of a Zhou Enlai faction of members serving in the State Council; of a cluster of Cultural Revolutionaries around Chen Boda and Jiang Qing; and so forth. Similarly, in the 1980s, divergences in leaders' public statements, the rise and fall of high-level leaders and swings in policy—the classic grist of Kremlinological analysis—provided solid evidence of competition between a coalition of "liberal reformers" around Deng Xiaoping and a cluster of "conservative reformers" around Chen Yun. Competing factional groupings featured common ideological commitments and visions of the national interest, shared bureaucratic backgrounds and agendas, as well as narrow considerations of personal power.

These classical criteria have not seemed to hold up as well in the increasingly institutionalised context that prevailed under Jiang Zemin, Hu Jintao and Xi Jinping. It seemed plausible to speak of a "Shanghai Gang" of leaders around Jiang Zemin who shared past service in Shanghai and other coastal provinces, or of a faction around Hu Jintao of leaders who had served in the Communist Youth League in the early 1980s, when Hu presided over that body. But the ties among such groups have seemed to be looser, less obvious in terms of policy preferences and based largely on

personal connections. These differences have prompted a shift among many observers of elite politics in China away from an analysis of "factions" in favour of "network" analysis.

The difficulty of specifying precisely what "factions" are in the Xi era is even worse, leading to the second failing of factional analysis: the arbitrary and fungible identification of factional adherents. It has become commonplace, for example, to assert that two broad camps—a Jiang Zemin faction and a Hu Jintao faction—shape the politics of the Xi leadership. The Jiang faction is supposedly composed of "princelings[2]", leaders originating from or serving in coastal provinces, and working in primarily economic and financial affairs. Hu's Youth League faction, by contrast, is composed of leaders of "commoner" background, originating from and serving in inland provinces, and working primarily in the Party apparatus or propaganda affairs. Based on these criteria, we are told, the seven members of the Xi Jinping Politburo Standing Committee include six adherents of the Jiang faction (including Xi himself) and one of the Hu faction.

A close look at the official biographies of each of the members of the Politburo Standing Committee should immediately raise questions about this assertion. Liu Yunshan, the fifth-ranking leader currently in charge of the Party's apparatus and the propaganda system, hails from Shanxi and served the first twenty-four years of his career in Inner Mongolia—neither of which has been a coastal region since the Mesozoic era. His entire career has been in the Party's propaganda hierarchy—his years in Inner Mongolia, his fourteen years in the Central Committee's Propaganda Department (1993-2007) and his five years' service on the Politburo and Secretariat before joining the Standing Committee in 2012. Add to this his two years' service leading the Inner Mongolia branch of the Communist Youth League during Hu Jintao's leadership of that body. Nevertheless, we are told by a logic not at all apparent, that Liu is a Jiang Zemin supporter.

The Liu case is an extreme example of an arbitrary and baseless identification of a Standing Committee member's factional ties that is commonplace in much of what passes as factional analysis of the Xi leadership. But numerous questions may also be raised about purported factional associations of other members of the Standing Committee and the broader leadership in the Party and the PLA.

The third and worst failing of factional analysis of politics in the Xi Jinping regime is that, so far, such analyses have no relevance to

policy. To be useful, analysis should offer insight into the political background of a regime's policies. It is not enough to assert that this faction is dominant over that faction, that the fall of some leader reflects a victory of this faction over that faction, or that this faction or that dominates the Politburo and its Standing Committee. Those assertions are alone of little value to interested foreign observers unless they are linked to their consequences for Beijing's policy agenda.

Specifically, factional analysis of the Xi Jinping leadership has failed to offer clear insight into its priorities or programs. It has not explained the genesis of the leadership's economic reform directions, nor has it explained the genesis of the 2013-14 mass-line study campaign. Although factional warfare is often pointed to as the motivation for the campaign against corruption, it is far from adequate to explain the removal of 186,000 officials on corruption charges in 2013 alone. Besides, factional analysis goes nowhere in clarifying Beijing's foreign-policy priorities under Xi Jinping.

Instead, factional analysis of the Xi leadership has facilitated a misplaced and sterile debate over how strong it is compared to that of his predecessors—Xi as a "new Mao" or a "new Deng Xiaoping" or a "new Qinshihuangdi[3]". Based on rumors, speculation, and dubious presumptions and deriving faulty and often mutually contradictory inferences, factional analysis has so far built multi-storied houses of cards.

An alternative analysis

The point is not that factions do not exist in Chinese leadership politics. It is that, so far, their analysis is deeply unsatisfactory. Whatever it may be, a successful factional approach to Chinese leadership politics must somehow facilitate and not distract from understanding the ongoing political initiatives and policy departures of the Xi leadership. A coherent picture of the genesis of these initiatives and departures is not hard to find. It emerges in straightforward fashion from analysis of major party documents and leadership speeches since the 18th CCP Congress of 2012.

The politics and policies of the Xi era were strongly shaped by the dilemmas confronting the leadership during Hu Jintao's second term (2007–2012) as General Secretary. Policy-making appeared to stagnate amid telltale signs of paralysed leadership decision-making in the face of major economic, social and political challenges: stalled economic reform and creeping dominance of

the state-owned enterprise sector in the economy; failing coordination over foreign and security policy; Premier Wen Jiabao's persistent complaints about the lack of progress in political reform; a lack of clear regime response to rising social unrest; and the impact of new social media.

> *The point is not that factions do not exist in Chinese leadership politics. It is that, so far, their analysis is deeply unsatisfactory.*

The 18th Party Congress was a place to address this leadership deadlock: to establish a new consensus behind reform; to authorise steps to break the resistance to policy change that had obstructed the last years of Hu's leadership; and to empower a new Xi leadership to pursue this agenda.

The Party congress accomplished these things. Much of what has emerged under Xi's leadership since the congress was foreshadowed explicitly or implicitly in the work report delivered by outgoing Party chief Hu Jintao at the congress. As all-Party congress work reports, the Hu report was a consensus document, taking a year to draft and revise and undergoing repeated review by the broader Politburo and its Standing Committee. The CCP congress also took steps to enhance the ability of the Politburo Standing Committee to establish consensus, reducing its membership from nine to seven.

What followed hewed closely to the line set down in Hu's report to the Party congress. In the spring of 2013, the Xi leadership launched the mass-line education campaign, explicitly mandated in Hu's work report and modelled after the intra-Party study campaigns of the Jiang and Hu eras. In November 2013, the 18th Central Committee's Third Plenum adopted the sixty-point program for "comprehensively deepening reforms" by 2020 (when China will become "a moderately prosperous society"), a formulation set down in the congress report. Many of the specifics of the 60 points were foreshadowed in general or precisely in the Hu report, including the establishment of the State Security Commission and reform of PLA organisation. Similarly, the anti-corruption campaign pressed by CCP Central Discipline Inspection Commission Secretary Wang Qishan drew authorisation from the party congress. So did the Fourth Plenum's package of legal reforms set down in November 2014.

The agenda the Xi leadership has pursued in the wake of the congress thus could not have surprised anyone among the CCP elite involved in the 18th Party Congress and its preparation. The foreshadowing of much of Xi's policy agenda at the congress indicates that Xi has been pursuing a mandate bestowed on him and his Standing Committee colleagues to achieve the CCP's 2020 goals and to address what authoritative Party statements and leadership speeches have forthrightly called a crisis of governance. The coherence with which the Xi leadership has pursued this agenda itself points to this interpretation as well. At a minimum, the foregoing interpretation suggests that whatever factional dynamic is at play has not crippled the ability of the broader leadership elite to establish a consensus on policy approaches to the problems the regime believes it faces.

More broadly, it must be acknowledged that factional competition is no longer the all-out, free-for-all, zero-sum power struggle it was in Mao's later years. Instead, factional politics since Deng Xiaoping is increasingly an interest-driven competition that plays out within more institutionalised structures and processes according to broadly accepted norms and codes. Much of the factional analysis of the Xi era so far rests on presumptions and patterns derived from the Mao and early Deng eras. To that extent, it is fighting the last analytical war. The politics of the post-Deng era are substantially different. The stakes in a far richer and more powerful country are considerably higher and the consequences of political excess more damaging to regime survival. And so the concepts and methods of factional analysis must evolve with it.

The People's Liberation Army's modernisation efforts

Chapter 10 – The People's Liberation Army's modernisation efforts

Since the 1990s, substantial resources have been poured into modernising the People's Liberation Army (PLA). This investment is paying off, as the PLA is increasingly capable of carrying out the missions tasked to it by the Chinese Communist Party (CCP). However, weaknesses remain as it may be unable to attain various strategic goals, most notably reunification with Taiwan, and potentially runs substantial risks of mission failure in a variety of plausible "non-Taiwan" scenarios. As a result, it is important to ask what the various modernisation efforts have actually meant for the PLA's ability to carry out missions and what significant modernisation efforts are expected to materialise in the mid to long term.

This short essay analyses a number of current and expected areas of modernisation. Specifically it seeks to analyse modernisation efforts that are significant not only because substantial resources and/or efforts will be used, but also because, if successful, they provide the PLA with the necessary capabilities to carry out various missions under plausible threat conditions. These missions include border protection, periphery, Taiwan, maritime claims, humanitarian assistance and disaster relief (HADR), non-combatant evacuation operations (NEO) and sea lines of communication (SLOC). The rest of this short essay looks at a few areas of specific modernisation significance: the PLA's manpower and organisation; air power; transport and logistics; and fleet air defence and maritime air support. Though not meant to be a comprehensive list, these areas of modernisation have been chosen for further examination based on their importance to the PLA's identified mission and the lack of easy substitution by other capabilities.

PLA's structure

The PLA's manpower and organisation form the foundation from which missions are prosecuted. Yet both are still tailored for a mid-20th century military that emphasises mass rather than effectiveness and seeks to utilise China's vast territory rather than wage joint warfare on China's periphery, often in air and sea domains. Although the pace of transformation in both areas could be described as glacial, the PLA increasingly recognises that fundamental changes are needed.

Manpower: Though China has recently made much of reducing the size of the PLA Army by 300,000 soldiers, even claiming that it proves China's peaceful nature, such moves are driven by a realisation that there is diminished utility for an infantry-centric force and by the fact that the other services should face less competition for resources and recruits. If the other services stay at current manning levels, the PLA Army's service members will be reduced from 69 per cent to 64 per cent of the overall PLA while the other services would represent 36 per cent (up from 31 per cent) of the force. Though these changes are not revolutionary, a shift of resources away from the PLA Army towards the Air Force or Navy will likely improve the PLA's capability to carry out its various missions.

Organisation: The PLA's outdated command structure, based around Military Regions (MR) and designed to fight a Maoist People's War on Chinese territory, both inhibits external joint operations and unnecessarily preserves the centrality of the PLA Army. However, recent rumours suggest that this structure may be further streamlined and the current seven military regions may be reduced in number. Like the recently proposed troop reduction, any MR downsizing portends a reduction in the current institutional dominance of the PLA Army. Though these changes are also not revolutionary, further organisational reforms that may occur in the mid to long term could force further changes in the composition of the Central Military Commission and even possibly make the PLA Army more similar to the other services. Specifically, this could occur if the four General Departments were to be removed from its immediate purview, an actual PLA Army headquarters was created, or most obviously if a national-level joint command structure over the entire PLA was established.

Air power

Numerous missions including border control and security, periphery, Taiwan, maritime claim and even certain SLOC contingencies call for the PLA to achieve air superiority, or at least a modicum of air denial, at critical points in a campaign. Numerous components of the PLA are able to successfully apply air power to these missions that are outlined below.

Fighter aircraft: Once dogged by an ageing fleet of fighter aircraft, the People's Liberation Army Air Force (PLAAF) and People's Liberation Army Navy Air Force (PLANAF) fighter fleets are, as of 2015, composed of a majority of modern fighters (fourth

generation and above). Legacy fighters such as the J-7 and J-8 variants are being quickly phased out and domestic production of the J-10 and J-11 variants has continued. Phasing out remaining legacy aircraft is an ongoing to mid-term priority. Developing fifth generation aircraft and associated technologies such as the J-20 and J-31 will be a mid- to long-term priority.

Pilot proficiency: In air combat, the "software" can be just as important as hardware and the PLAAF institutionalisation of Red Flag-like exercises and the Golden Helmet competition are leading to a more competent and professional pilot corps. Training standardisation will improve pilot quality force-wide, although overall proficiency will likely depend on whether or not the PLA is able to both gain access to and absorb the tactics, techniques and procedures of Western air forces. This may be difficult if the limited interaction the PLA currently has with other air forces continues.

Special mission aircraft: The PLAAF and PLANAF still lack significant numbers of special mission aircraft with which to provide airborne early warning, command-and-control, and aerial refuelling functions. This hinders effective employment and sustainment of its fighters and attack aircraft when engaging offensive and defensive counter-air operation (OCA and DCA) roles, especially at extended ranges. Although an obvious weakness, it is unclear why this has not seemingly been more of a priority to date, at least from the metric of seeing the production of substantial numbers of airframes. It is quite possible that various technological break-throughs as well as organisational issues have yet to be achieved. With aerial tankers, however, China may possess a viable platform in the Y-20 transport under development.

Air unit organisation: The PLAAF and PLANAF continue to be organised around divisions and regiments, typically with one regiment per airfield. When the long-rumored "brigade-isation" of the PLA air units occurs, this will be a harbinger of important change. With the brigade concept in place, multiple aircraft types will be co-located at an airfield meaning that airbases in adjacent MRs can be used more dynamically to support and launch air sorties, thereby increasing operations tempo, flexibility and resilience from counter-attacks. This directly affects the effectiveness of air operations in various border, periphery and Taiwan missions.

Transport and logistics

If the PLA is going to maintain and expand its global presence, it will increasingly require a great deal of often overlooked but essential logistical capabilities resident in long-range transport aircraft and at-sea replenishment ships. The former allow the PLA to project force quickly and be responsive to rapidly changing world events. The latter allow China's surface fleet to maintain an increasingly global posture, providing the endurance necessary to carry out SLOC and maritime claims missions as well as engage in multilateral exercises and port visits worldwide.

Transport aircraft: Long-range transport aircraft of the PLA are part of the PLAAF's small fleet of Russian-built IL-76. These heavily used aircraft are important for periphery, Taiwan, HADR and NEO missions to para-drop airborne troops, dispatch needed humanitarian aid and retrieve overseas Chinese citizens in harm's way. The lack of sufficient numbers of these aircraft constitutes a potentially serious weakness, especially for NEO operations in semi- or non-permissive environments. To rectify this, the PLA is indigenously developing the Y-20 transport, of which the first airframes are expected to enter service in 2017.

At-sea replenishment ships: The PLA's ability to operate its surface fleet at medium or long distances is constrained by the available at-sea replenishment capabilities in the People's Liberation Army Navy (PLAN)'s inventory. The availability of this capability specifically affects maritime claim, SLOCs and potentially Taiwan missions. To date these capabilities reside in approximately eight vessels representing three different ship classes. Though this fleet has grown modestly in recent years, it may not be keeping up with demand. The PLAN's continuing anti-piracy patrols in the Gulf of Aden, increasing numbers of out-of-area exercises in the Western Pacific and the South China Sea, as well as an already substantial and growing participation in international exercises and port visits keep this fleet in constant use. This will likely be met in the short to mid term by building further Type 903 (Fuchi-class oil replenishment) vessels and possibly suggests that we may expect a new and more capable class of this ship type in the mid to longer term.

Fleet air defence and maritime air support

Fleet air defence is a substantial weakness for the PLA. Indeed, the further the PLAN's task forces operated from China's shores, the more susceptible it is to air attack and the less air support it could count on, something particularly important in prosecuting amphibious operations. These weaknesses have affected a number of PLA missions including maritime claim missions (particularly in the South China Sea), Taiwan missions and potentially SLOC protection missions. To mitigate this issue, the PLA is spending substantial resources to build new destroyers with long-range, surface-to-air missiles (SAM) and, in the case of maritime-claim missions, to build islands in the South China Sea.

Surface ship air defenses: As recently as 2005, China possessed no naval ships in its surface fleet that could engage enemy aircraft beyond 35 kilometres. Development and production of the Luyang II and Luyang III destroyers and the HHQ-9 SAM that can reach 100 kilometres has changed this substantially. There are currently 6 Luyang IIs in service and three Luyang IIIs with a total of 10 more planned. Of note, China also possesses two indigenously produced Luzhou destroyers that carry an even longer range Russian-built SAM (the SA-N-20).

Island building: Ongoing construction of three airfields at Fiery Cross, Mischief and Subi Reefs, all of which appear to have 3,000-metre runways, seeks to remedy this weakness and provide the PLA a substantial advantage over the other claimants. It is still unknown how many aircraft will operate from these airfields. Given the weather environment, numbers of aircraft permanently based at these air bases will be determined at least in part by available hangar space. The number of aircraft able to surge temporarily to these air bases will be dependent on tarmac space. While these facilities likely do not pose a serious challenge for US air or naval operations, they will provide China a local air superiority advantage vis-à-vis other Spratly claimants; air support to naval and amphibious task forces operating in the area; and allow China a means to control airspace should it enact an Air Defence Identification Zone (ADIZ) in the South China Sea.

Conclusion

What do current PLA modernisation efforts mean and what modernisation efforts are likely to be prioritised in the years ahead? This short essay has sought to identify some areas of PLA

modernisation that are especially significant because they directly address current capability shortfalls that would otherwise lead to risk or outright failure across a number of potential mission sets.

Table 1. PLA Modernisation Priorities by Mission Set

Category	Modernization Area	PLA Missions						
		Border	Periphery	Taiwan	Maritime Claim	HA/DR	NEO	SLOCS
Structure	Manpower	N to L						
	Organization	M to L						
Air Power	Fighter Aircraft	N to M (replace legacy fighters) and M to L (introduce 5th gen fighters)						N to M; M to L
	Pilot Proficiency	N to M						
	Special Mission Aircraft	M to L						
	Air Unit Organization	M						
Transport and Logistics	Transport Aircraft		M to L			M to L		
	At-Sea Replenishment Ships			N to M				N to M
Fleet Air Defense and Maritime Air Support	Surface Ship Air Defenses			N to M				N to M
	Island Building				N to M			N to M
Key: N = Near Term Priority (<2 years); M = Mid Term Priority (2-5 years); L = Long Term Priority (>5 years)								

The table above summarises these findings. To recap, organisational PLA modernisation efforts have received recent prioritisation, but due to bureaucratic roadblocks and entrenched equities, they are likely only to be fully realised over the long term. Air power modernisation efforts to replace ageing fighter aircraft and professionalise the fighter pilot corps are continuing, whereas organisational changes and special mission aircraft will likely take more time to achieve. Although only marginal improvements have occurred to date, significant efforts are underway which will substantially increase the PLA's transport and logistics capabilities in the mid and long term. Finally, fleet air-defence and maritime air-support are being rapidly improved through the introduction of new ship classes and island-building efforts.

Chinese intelligence modernisation: The long road towards a global intelligence capability

Chapter 11 – Chinese intelligence modernisation: The long road towards a global intelligence capability

The overarching trend in Chinese intelligence is towards a global intelligence capacity to service Beijing's needs across a broad swathe of the world. Contrary to much of the conventional wisdom on Chinese intelligence, it is not an amateur- or collection-led operation. By definition, according to official sources, intelligence is firmly connected to the needs of decision-makers and helping to resolve the uncertainties that inhibit policy-making. As Chinese interests expand abroad, crises in foreign lands threaten the safety of Chinese citizens and commerce. Similarly, the choices of major global players in areas once tangential to Chinese interests, like the Middle East and parts of Africa, now have an impact on Beijing. The tools at Beijing's disposal are slow moving. Evacuating Chinese citizens from Libya (2011) and Yemen (2015), for example, stretched the capacity of those faster-moving, military resources. Intelligence, thus, can provide the necessary foresight to use effectively Chinese diplomatic resources.

Challenges to building a world-class intelligence capability

China's intelligence services face a daunting set of challenges as they prepare to meet the demands created by Beijing's growing activism and interests abroad.

- *Small cadre of case officers*: China probably possesses a relatively small number of case officers trusted for recruiting and handling foreign agents. One of the most striking features of Chinese case-handling is the presence of spy rings, in which human-intelligence assets actually have knowledge of other agents because of their operational connections. For example, when US authorities arrested Gregg Bergersen [4]and Kuo Tai-shen, Kuo, a resident of New Orleans, was staying with James Fondren[5] in Alexandria, VA. Fondren would later be arrested, tried and convicted for espionage. Kuo had introduced Fondren to their shared Chinese case officer and was present for the soft recruitment. In the past, intelligence services have only used this approach when the number of intelligence officers is small relative to the number of agents. Perhaps

China is unique, but their understanding of professional intelligence tradecraft comes from traditional sources—such as the Soviet Union—and from the high-risk settings of civil war and operating without diplomatic protection. China's use of principal agents like Kuo Tai-shen is demonstrated most clearly in Chinese intelligence operations against Taiwan, where nearly every espionage arrest includes two or more individuals with one serving as the go-between for Chinese intelligence.

- *Military monopoly on all-source analysis*: Inside the Five-Eyes and NATO communities, we are accustomed to discussing the idea of an "intelligence community". Even the most stovepiped of intelligence systems within these multilateral intelligence arrangements still involves sharing across boundaries and some sense that different agencies' data needs somehow to be aggregated to best support decision-makers. No evidence suggests the Chinese intelligence organisations operate in concert or regularly share information at the working level. Consequently, intelligence moves up through different stovepipes, coming together either in policy systems or at the Leading Small Group (LSG) level where minister-level officials sit together.

Under the current arrangements, only the military intelligence system is capable of coordinating and aggregating the full range of collection disciplines against a target. The Ministry of State Security (MSS) and the Ministry of Public Security (MPS) possess both human intelligence (HUMINT) and, in the form of cyber and close-in technical surveillance, signals intelligence (SIGINT). The military intelligence system runs overt and clandestine HUMINT operations as well as multiple forms of SIGINT, imagery satellites and electronic intelligence. Individually, the agencies responsible may not share the information among themselves; however, the data does accumulate around the deputy-chief of the General Staff Department (GSD) with the intelligence and foreign-affairs portfolio. This officer also is reported to be one of the People's Liberation Army (PLA) representatives on the various foreign affairs-oriented LSGs, including the Foreign Affairs, Taiwan, and Hong Kong & Macao leading small groups.

- *De-conflicting and aggregating intelligence outside existing policy systems*: Beijing relies on a variety of organisations that do intelligence and covert influence work. In the areas where files most overlap—namely, Hong Kong, Macao,

Taiwan and Falun Gong (or other religious groups) as well as, more generally, preserving stability operations—these organisations (and their sub-national elements) plug into a policy apparatus at central level or at each of the various levels below the centre. In some cases, they even share cover and front organisations, giving their officers direct contact with their counterparts inside China. Outside of these existing policy systems, this kind of integration is completely absent and, based on organisational structure, occurs only at the level of senior policy-makers, the LSG, and possibly its supporting office.

- *Agent handling with more than one case officer*: Nearly every account of Chinese espionage cases includes the presence of a second or third case officer involved in the recruitment, if not the handling of sources. Running operations entirely outside of China with more than one officer dramatically increases the risk accepted by the intelligence services and the agent. Although an expert debriefing may be necessary sometimes, the regular inclusion of more than one officer suggests corruption remains an issue within the intelligence services—at least at the level of falsifying accounting, if not agents and their reporting.

- *Balancing aggressiveness and relationship building*: Historically, one of the strongest features of Chinese HUMINT was the focus on building long-lasting, enduring relationships. In cases like that of the French diplomat Bernard Boursicot and Larry Wu-tai Chin (a Chinese language translator working for the CIA), Chinese intelligence officers demonstrated the ability to rekindle a relationship despite years without contact. Recently, however, the Chinese intelligence services have thrown money at people or used blackmail with mixed results. Some examples from recent years include a business consultant pitched at his third meeting, an academic pitched at his second meeting and a businessman detained at the airport for a cold pitch. Blackmail, however, was used in conjunction with other methods to recruit Taiwanese General Lo Hsien-che, who provided secrets on Taiwan's C4ISR modernisation.

New and enduring strengths

Chinese intelligence will continue to deploy its strongest resources domestically and to exploit the opportunities this affords against frequent travelers to China. An emerging strength will be intelligence support to military operations, areas to which the PLA has slowly been redirecting its principal intelligence departments and personnel.

- *Better intelligence support to military operations*: Intelligence is no longer a terminal career path within the PLA, and personnel moves in the last five years illustrate the value that PLA is placing upon integrating intelligence and operational expertise. Intelligence officers have been promoted into a variety of senior service and military region positions and technical link-ups to the GSD technical collection platforms (such as imagery, SIGINT and electronic intelligence (ELINT) satellites) have moved intelligence collection closer to the shooters. The question of whether these intelligence flows will be handled by the services' intelligence departments or GSD personnel seconded to those units remains unanswered.

- *Counter-intelligence*: Limited evidence suggests Chinese intelligence is bringing big data processing to counter-intelligence and counter-espionage investigations. The bold theft operated on the US Office of Personnel Management, Anthem Insurance and United Airlines suggests the capability to use this information. The number of intelligence systems worldwide that have brought analysis to bear on counter-intelligence and counter-espionage remains surprisingly small. Moreover, the additional surveillance technology now deployed on the streets of Chinese cities—cell phone tracking, legal intercept, traffic cameras with license-plate recognition, networked video surveillance—will move closer to integrated, real-time tracking even if they already boost the investigative resources available domestically.

- *Exploiting the domestic base*: Because the Chinese intelligence services are not entirely comfortable operating abroad, the counter-intelligence system has increased its capacity to target potential foreign agents at home. One of the most important challenges in running operations overseas is evaluating an agent's *bona fides* and reporting,

as well as the relationship with his/her case officer. When potential agents regularly travel to China, the intelligence services have the ability to bring immense investigative resources to bear. This includes monitoring emails and phone calls; exploiting personal electronics; following up with the target's personal contacts; and even engineering several ad hoc encounters to speak with targets directly before trying to develop an intelligence relationship. Also, if a target has a career or business interest in being able to work in China, pressure to cooperate can easily be exerted.

> *Because the Chinese intelligence services are not entirely comfortable operating abroad, the counter-intelligence system has increased its capacity to target potential foreign agents at home.*

Conclusion

The Chinese intelligence services face a daunting set of challenges in their bid to evolve from a local counter-intelligence and regional intelligence apparatus into a global player capable of protecting Chinese interests. Two trends are likely to persist for the next few years. First, the core of China's intelligence effort will reside within the military, but the PLA will horde resources to focus on support to military operations. Second, the MSS probably will build its capacity for foreign intelligence operations and the sophistication of its HUMINT capabilities probably will increase rapidly as cyber forms the leading edge.

The core of the effort for the foreseeable future will reside within military intelligence, because of the PLA's ability to integrate different collection disciplines and their resources. The military intelligence core, however, will create two divergent forces: intelligence for military support and intelligence for policy-makers. The PLA's drive to "win informatised local wars" by definition requires additional intelligence resources to target precision weapons, provide bomb-damage assessment and track enemy units across the vast space of China's periphery. Putting intelligence officers to work supporting foreign and national-security decision-making, however, will distract from these military missions, as the training and education requirements do not overlap. Moreover, the most senior policy-makers may be tempted by their closeness with military intelligence officials to redirect

those resources internally against the military bureaucracy. The opacity of the Chinese system, even to those within it, makes these trade-offs difficult to manage in a coherent way, and, barring intervention from Xi Jinping and the Party leadership, the focus is likely to remain on support to military operations.

> *In the next few years, cyber will offer the MSS the best chance to build its foreign intelligence collection quickly and without the bureaucratic fights to get positions connected to official Chinese missions abroad.*

The main beneficiary of the PLA's focus will be the MSS, which should feel pressure and sense the opportunity for more production and latitude in foreign intelligence than its traditional internal missions. The MPS continues to outweigh the MSS bureaucratically, and its domestic surveillance resources have brought the ministry back into the national security missions once ceded to the MSS in 1983 and the early 1990s. In the next few years, cyber will offer the MSS the best chance to build its foreign intelligence collection quickly and without the bureaucratic fights to get positions connected to official Chinese missions abroad. The next steps for the MSS to improve its operational sophistication include integrating its cyber (or other close-in technical) capabilities with its HUMINT operations; and conducting those operations entirely outside China. The integration probably will occur rapidly as using cyber and SIGINT to investigate potential agents abroad is the only way to perform the same level of validation as the Chinese services do inside China.

The Chinese People's Liberation Army: An overview of policy, research, development and operational infrastructure

Chapter 12 – The Chinese People's Liberation Army: An overview of policy, research, development and operational infrastructure

The People's Republic of China (PRC) and the People's Liberation Army (PLA) have a large infrastructure dedicated to monitoring the electromagnetic spectrum and cyberspace. These capabilities are referred to as technical reconnaissance. The PLA General Staff Department (GSD) Technical Reconnaissance Department (also known as the GSD Third Department) is the most prominent Chinese organisation with signals intelligence responsibilities. Roughly analogous to the US National Security Agency (NSA), the Third Department appears to have significant links to civilian security organisations and a prominent, if not pre-eminent, presence in the civilian information security community. An outline of that infrastructure, including the supporting research, development and acquisition system, may assist in better protecting the integrity of US and Canadian communications. At least part of this Chinese infrastructure may be oriented domestically.

National-level policy infrastructure

PLA technical reconnaissance is guided by national informatisation policies. The Central Network and Informatisation Leading Small Group (Central Leading Group for Cyberspace Affairs) appears responsible for general policies regarding information security, broadly defined to include Internet censorship. The group consists of a director, two deputy-directors and 18 members, of whom six are dual hatted as members of the Chinese Communist Party (CCP) Political Bureau (Politburo). Another important organisation responsible for national cryptologic policy is the Central Cryptologic Leading Small Group, and a standing office that prominent PLA officers advise.

Research, development, and acquisition

Operational requirements for technical reconnaissance are guided by national informatisation policies. In addition to institutes directly subordinate to the Third Department, the PLA General Armaments Department (GAD) and State Council oversee organisations and funds for research and development of technologies associated with signals intelligence. One source of

funding is the 863 Program. Expert working groups supporting the 863 Program and GAD Science and Technology Committee direct investment into preliminary research. The Third Department's Science and Technology Equipment Bureau and three subordinate research institutes are probably responsible for development of mid-long range modernisation goals and engineering R&D management.

Operational technical reconnaissance infrastructure

The PLA's operational technical-reconnaissance community consists of at least 28 technical reconnaissance bureaux (TRBs). The GSD Third Department has direct authority over 12 operational bureaux, three research institutes and a computing centre. Ten additional TRBs provide direct support to the PLA's seven military regions (MRs), while another six support the PLA Navy (PLAN), Air Force (PLAAF) and Second Artillery Force (PLASAF). GSD Third Department is separate and distinct from the military region and other PLA technical reconnaissance bureaux. The director of the Third Department reports to the Central Military Commission (CMC) through the Chief of the General Staff (COGS).

Each of the 12 bureaux under the Third Department carries a grade equal in status to a ground force division and has unique responsibilities. A bureau consists of between six and twelve brigade or regimental-grade units. For example, the Second Bureau, headquartered in Shanghai, oversees at least 12 brigade or regimental-grade offices and work stations that are garrisoned in the greater Shanghai area and other parts of China. As one component of a much broader system, the Second Bureau appears to have a traditional communications intelligence mission supported in part by cyber-espionage. The Second Bureau oversees a work station in the vicinity of a major submarine cable landing-station on Shanghai's Chongming Island and probably a unit near the Nanhui cable landing-station. In addition to cyber-reconnaissance, the Second Bureau also appears to manage a national, high-frequency direction-finding network. The director of the Second Bureau also serves as director of the Shanghai City Government 11th Office. In May 2014, the US Department of Justice announced indictments against five PLA officers on charges of cyber-espionage directed against US firms. According to the indictments, the five officers were assigned to the Second Bureau's Third Office.

The Third Department First Bureau may also play an important role in computer network operations. The First Bureau headquarters oversees at least twelve offices operating in various parts of China. The bureau appears to have a functional rather than regional mission, probably decryption, encryption and other information security tasks. A First Bureau officer is the only military representative on the national 863 Program Information Assurance Expert Working Group. Other Third Department entities with possible cyber-reconnaissance responsibilities include the Beijing North Computing Centre and the Ninth Bureau, which is co-located with Third Department headquarters in Beijing.

The PLA's technical reconnaissance community also supports space surveillance and intercept of satellite communications. Headquartered in Shanghai, the Third Department 12th Bureau may have three missions. First, it probably intercepts uplinked and/or downlinked electronic transmissions between satellites and transmitters on the surface. Inception of communications from satellites to ground stations appears to be fairly rudimentary. However, perhaps the most important mission may be surveillance, identification and tracking of satellites and other space vehicles. Passive space tracking of these involves the use of antenna systems on the ground that can locate with precision the source and characteristics of signal and associated transmitter. Detection of a signal may cue other space surveillance assets. The 12th Bureau also supports the China Academy of Sciences Purple Mountain, which plays a central role in space-debris tracking. One unverified source alleges the 12th Bureau could engage in international cooperation.

Conclusion

In short, GSD Third Department leaders manage a complex infrastructure that exploits vulnerable computer networks around the world. Technical reconnaissance enables a powerful understanding of plans, capabilities and activities of foreign governments, companies, think-tanks and individuals in near real time. Much more research could be done in a number of areas, including basic Third Department and TRB organisation, history and missions. With regards to cyber-reconnaissance, the Beijing North Computing Centre and First Bureau may be key areas of interest. More work should be done on China's domestic information security challenges and national computer network defence organisations and relationships. Greater investments are also necessary to understand the Third Department's R&D institutes and relationships with defence industries, as well as the

relationships with a civilian "cyber- militia". More attention should be paid to the prospects for and implications of expanded space-based technical reconnaissance and its role in "informatised" warfare, including cueing support for long-range precision strikes.

> *Technical reconnaissance enables a powerful understanding of plans, capabilities and activities of foreign governments, companies, think-tanks and individuals in near real time.*

The ability to synchronise operations of the twelve bureaus under the Third Department with those subordinate to military regions, Navy, Air Force and Second Artillery would represent a potential strength of the PLA's technical reconnaissance system. However, in one case, the Second Bureau director's concurrent position as director of the Shanghai City Government 11th Office suggests vertical and horizontal lines of authority. This example could be indicative of a possible fragmentation of the PLA's broader technical reconnaissance infrastructure. In addition, Third Department elements with direct access to fiber-optic cable landing stations (eg, Second Bureau) could buffer communications traffic entering and leaving China. As gatekeepers, Third Department units may have some knowledge of large volumes of data exfiltrated by other cyber-espionage groups operating throughout China.

Finally, which organisation within the PLA has responsibility for computer network attacks remains an open question. Most assessments point towards the GSD Fourth Department, which traditionally has been the principal staff organisation responsible for radar-related planning and electronic counter-measure (ECM) operations. A preliminary survey reveals few clues about a Fourth Department strategic cyber-attack mission. GSD Third Department itself and PLA Second Artillery Force, China's answer to US Strategic Command, are alternate candidates.

China in the new Asian order

Chapter 13 – China in the new Asian order

The international order that has prevailed in Asia since at least the 1960s is fraying. This is a function of three important trends, all of which are closely connected to the rise of Chinese power.

Many discussions of Beijing's regional strategy begin with the presumption that it aims to push the United States out of Asia and supplant the prevailing regional order. But even if that were *not* Beijing's ambition, the trends discussed in this paper *will* reshape the region in fundamental ways by:

- increasing China's centrality to Asian affairs;
- deepening China's relations with other Asian countries;
- giving it new points of potential leverage over other Asian countries;
- stitching disparate regions of Asia into a more integrated whole, with China as a central node in a more networked Asia;
- threatening the traditional role of East Asia's hitherto dominant power, the United States; and
- altering many aspects of the Asia that have prevailed since 1945.

In short, barring a Chinese economic and political implosion, these trends will yield a base case for an Asia that diverges sharply from that to which we have grown accustomed since the 1960s. So, what are these three structural trends?

Economics and security in collision

For much of the postwar period, Asia's dominant security and economic orders were tightly interconnected. That is because the United States acted as the principal provider of both security- and economic-related public goods.

But bluntly put, this is no longer the case. "Security Asia" and "Economic Asia" have taken on distinct dynamics. The former is more trans-Pacific, with the United States at its centre, while the

latter is increasingly pan-Asian, more diverse, complex and multifaceted—and with China as a major driver of the action.

In "Security Asia", the United States remains an essential strategic balancer, vital to stability. Its alliances and forward-deployed military presence continue to provide comfort and security to many countries across the region. By contrast, in "Economic Asia", the US role, while growing in absolute terms, is receding in *relative* terms as Asian economies increasingly act as a source of demand, products, capital, and trade for one another.

China lies very much at the centre of that story. From 2000 to 2009, China's share of total trade of the Association of South East Asian countries (ASEAN) tripled, surpassing that of the United States, whose share declined by a third over the same period. By 2014, this picture looked still more uneven. As a demand driver, and thus a public-goods provider, China comprised 11.6 per cent of ASEAN exports compared to the US's 9.5 per cent. Even as it appeared to be losing the game to China as a *demand* driver in South East Asia, the US had also begun to lose (and to an even greater degree) as an exporter to ASEAN economies, with China thumping the US by some 10 percentage points, at 17.5 per cent of ASEAN imports to just 7.3 per cent for the US.

In fact, this story extends beyond South East Asia. Indeed, if one considers Central and South Asia where US trade and investments have been negligible, economic interaction with the United States comprises a diminishing share of nearly every major Asian economy's overall trade and investment.

Despite a pronounced economic slowdown in China, this trendline is unlikely to change. Thus China will continue to provide a growing share of economic public goods to other Asian countries, going forward. Whatever China's ambitions may be, sheer economic gravity will change strategic reality across Asia. Instead of a single Asian story, China will increasingly lie at the centre of a bifurcated "Tale of Two Asias", in which economics and security no longer run along parallel lines and, in some instances, may collide.

One question worth considering, therefore, is whether Beijing will attempt to use economic leverage for strategic ends. Another is whether China's current economic slowdown turns into a long-term stagnation that circumscribes this emerging role and curtails its economic statecraft. A third question is whether the United States, in particular, is able to bolster its growth and, as important,

reinvigorate its *own* economic statecraft in ways that begin to arrest the bifurcation of Asia's economic and security realities.

The persistence of pan-Asian regionalism

A second structural trend with deep roots is the persistence (and deepening) of pan-Asian regional ideas, ideologies and institutions. This is not, in itself, a new trend. Indeed, while it is fashionable to ascribe efforts to build a pan-Asian economic and institutional order to rising Chinese assertiveness (or, more precisely, to Chinese ambition), that is just one part of the story. In fact, contemporary Asian regionalism—the desire to forge at least some cohesion out of the region's enormous diversity—has found expression not just in China but across Asia and over many decades, from Mahathir's stillborn East Asian Economic Bloc to the proposed Asian Monetary Union (AMU), birthed by Japanese bureaucrats of the 1990s.

But such ideas never amounted to much, in part because the United States, working in tandem with regional and G7 partners, chose to crush this incipient regionalism. The AMU of the late 1990s offers an instructive example: Tokyo has been a close US ally and has a strong trans-Pacific identity. Some in Japan and the United States now argue that the two countries should lead a region-wide counter-response to China's supposedly "new" pan-Asianism. But, although both countries are deeply ambivalent about Beijing's intentions, Japan and its bureaucracy have long incubated a variety of pan-Asian ideas and ideologies, especially with respect to monetary integration. The 1997 proposal for the establishment of an AMU helped give rise to today's Chiang Mai Initiative, which involves bilateral currency swaps among countries of South East and North East Asia.

But much has changed since the 1990s, so a new pan-Asianism—with China as a major driver that tries to leverage these trends to its advantage—is almost certain to persist and, in some areas, to cohere. Here are a few reasons why.

First, although the United States bulks large in the global economy, it is, in relative terms, not as large as it was in 2008, much less than in 1998. The 2008 financial crisis book-ended a tumultuous decade. It came almost precisely ten years after the Asian crisis and added fuel to Asian debates about overreliance on Western economies by dampening growth in the West, long the region's traditional export market. As Asia emerged from the 2008 crisis, debates intensified about the utility of an intra-regional hedge, or cushion, against

continued or future volatility in the West. Many of the same countries have emphasised moving away from exports towards domestic, intra-regional and emerging market demand.

Second, where the G7 were once demand drivers for Asian exports, the other foot now wears the shoe in a growing number of areas. Asian economies today are more than traders. They are builders, lenders, investors and, in some areas, a growth engine, for example as consumers of US corn and soybeans (for their animal feed), pork (for their tables) and natural gas (for their power plants).

Third, Asia is now a source of capital, not just a capital recipient. Financial markets form wherever capital is concentrated, and increasingly, Asians are buying stakes in Asian companies, and also in companies in the United States and Europe. These purchases have scrambled the calculus in many countries, as Chinese, Japanese and Korean money flows across Asia; Straits bankers finance deals in India; and Indian corporate money looks for opportunities overseas.

Fourth, Asia's emerging powers, including India and China, are less content to live in perpetuity with an architecture largely built by the West. This explains, in part, why India, despite its deep ambivalence and suspicion of Chinese power, has still joined both the Asian Infrastructure Investment Bank (AIIB), and the BRICS (Brazil, Russia, India and South Africa) Bank as a founding member.

Finally, there is China, whose foreign and economic policies are converging in unprecedented ways. With some USD 3.5 trillion in foreign exchange reserves—more than the nominal gross domestic product of India, South Korea and Thailand combined and equivalent in size to the world's fourth-largest economy—Beijing's abundance of capital has become an extension of its foreign policy. It is leveraging state-backed financial vehicles for diplomatic and economic ends, represents the world's largest trader, and possesses seven of the world's ten largest cargo ports.

Beijing has more going for it than just its capital. Surrounded by rivals, China is often said to be a "victim" of its strategic geography, yet it benefits from a very favourable economic geography. China abuts regions either that are capital-starved (Central and South Asia) or where capital is abundant but requirements exceed the capacity of the Bretton Woods institutions and private lenders (Southeast Asia's need for some USD 1 trillion in infrastructure by 2020).

In sum, the proliferation of Asia-only pacts and institutions over the last two decades has won support in more than a few Asian capitals, *even* in countries that are ambivalent about China's rise and among US allies and partners. This will remain a lasting feature of political and economic reality in Asia. As noted, China will seek to leverage these trends to its advantage, as it did with the AIIB.

The restoration of "historical Asia"

Historically, Asia was an astonishingly interconnected place. But between the 17th and 19th centuries, Asia fragmented. Maritime trade swamped continental trade. "The caravel killed the caravan" as it became less expensive to ship goods by sea. China weakened. Tsarist armies arrived in Central Asia. And many of India's traditional roles in Asia were subsumed within the British Empire.

Today, after a 300-year hiatus, these connections are being restored. Chinese traders are again hawking their wares in Kyrgyz bazaars. Straits bankers are financing deals in India. China lies at the core of industrial supply and production chains that stretch across South East Asia. Chinese workers have been building ports and infrastructure from Bangladesh to Pakistan to Sri Lanka. The governments of Turkmenistan and Uzbekistan have sold electricity southward, reconnecting their power grids to Afghanistan, while Kyrgyzstan and Tajikistan have signed an intergovernmental memorandum to sell electricity to Afghanistan and Pakistan.

In short, Asia is being reborn and remade. The region that is likely to exist ten years from now will be more closely connected, tied together with infrastructure, and thus very different from that with which Westerners have generally grown comfortable.

Gradually, but inexorably, the region is becoming more *Asian* than "Asia-Pacific", especially in its economic arrangements; more *continental* than subcontinental, as East and South Asia become more closely intertwined; and, in its continental west, more Central *Asian* than *Eur*asian, as China develops its western regions and five former Soviet countries rediscover their Asian roots.

China's "One Belt One Road" effort, together with its USD 40 billion Silk Road Fund, the AIIB and other initiatives, will all contribute to this trend. But much of this has been in progress for over a decade, predates One Belt One Road and reflects deeper structural changes, including, for example, the breaking of the long-standing

Russian monopsony as Central Asia's single point of transit for oil, gas and other commodities.

Xi Jinping has picked up on these trends, systematised China's approach to them and repackaged disparate activities under an encompassing policy umbrella. By "going west", for example, China is in fact accelerating the reintegration of Asia writ large in a way that is closer to the region's historical norm. So while these ideas are not new, what *has* changed is Beijing's capacity to execute on them.

Other countries, including Japan and South Korea, are also a part of this story, for instance, given the major role played by Japanese project finance in India and elsewhere in South Asia. However, none can match China's powerful combination of abundant capital, political will and geographic advantages, as both a continental and maritime state, and as a neighbour to all three major sub-regions of Asia—East, Central and South.

> *By "going west", China is in fact accelerating the reintegration of Asia writ large in a way that is closer to the region's historical norm.*

These three structural trends, taken together, will produce a very different Asia in coming years. We should presume that China will be well positioned to leverage these trends to its strategic and economic advantage.

The two-level game of China's financial statecraft

Chapter 14 – The two-level game of China's financial statecraft

Since Xi Jinping took over as China's leader, the country's foreign policy has taken a notable turn towards greater activism and, in some areas, greater assertiveness. Nowhere is this trend more obvious than in the area of foreign financial policy. In 2014, China joined the other BRICS countries (Brazil, Russia, India and South Africa) and established the New Development Bank (NDB) with an initial capital commitment of USD 50 billion and the Contingency Reserves Arrangement of USD 100 billion. In 2015, China led the creation of the Asian Infrastructure Investment Bank (AIIB) with an initial capital of USD 100 billion and 57 countries as founding members. Meanwhile, China has contributed USD 40 billion to a Silk Road Fund to increase connectivity across Asia by supporting infrastructure projects. Chinese officials have also expressed support for the establishment of a development bank by the Shanghai Cooperation Organization (SCO). Besides these regional initiatives, the Chinese government has vigorously pursued the inclusion of the renminbi (RMB) in the basket of the IMF's Special Drawing Right (SDR) in 2015.

In light of this new activism, many observers have concluded that China is changing its role as a rule-taker to become a rule-maker in the international system. Some warn that China is re-writing the rules of global governance. Others see it as trying to reform certain aspects of the current order without seeking to overturn it. In the area of international financial governance, Chinese officials, including top leaders, have gone out of their way to emphasise that the new banks, reserve pools and other cooperation arrangements launched by China are meant to complement the traditional institutions and programs rather than supplant them.

Whether or not China's new activist foreign policy, in particular its foreign financial policy, threatens the current international order is an important question, but it is probably not a question that has clear answers. Outside observers may view Chinese foreign policy as based on a grand strategy vis-à-vis the international order; but the reality is a lot messier and less coherent. As we evaluate China's intentions and purposes, it is important to recognise that the Chinese government is often engaged in a "two-level game". Given the enormous challenges in governing China and the ruling party's limited basis of legitimacy when making foreign policies,

Chinese policy-makers are particularly sensitive to domestic economic and political imperatives. The AIIB and the SDR initiatives illustrate these dynamics.

The two-level game of the AIIB

In October 2014, the Chinese government and twenty other Asian countries signed a memorandum of understanding to set up the AIIB to finance infrastructure in the region. In the spring of 2015, despite US warnings against it, the United Kingdom declared that it was going to join the China-led bank. In the days and weeks that followed, major economies in Europe and elsewhere stampeded to join the AIIB, leaving the United States in a state of shock and embarrassment. Pundits and reporters across the globe quickly portrayed the establishment of the AIIB as a symbol of the emergence of a new international financial and economic order and of a power shift from a declining United States to a rising China.

Whether or not the creation of the AIIB will be "remembered as the moment the United States lost its role as the underwriter of the global economic system", as Larry Summers put it, remains to be seen. But if that indeed turns out to be the case, it is not likely to have been planned by the Chinese government. The AIIB, along with other financial initiatives mentioned above, is as much a scheme for dealing with a series of domestic economic and political problem as it is a diplomatic initiative.

Chief among the economic motives behind the AIIB are the desire to ensure China's access to energy and raw materials, to export China's industrial overcapacity and to improve the financial performance of China's external assets. All of these economic challenges are closely related to China's investment- and export-dependent economic growth model. For over a decade, China's leaders have called for a change of the development model: a transition to domestic consumption-based economic growth. However, the overall pace of reform has been painfully slow because of the strong political resistance by vested interests. Rather than implementing politically difficult economic restructuring, the Chinese government has chosen to deal with the problems of the current model by exporting its overcapacity and diversifying its financial assets. The establishment of the AIIB (along with the NDB, the Silk Road Fund and the planned SCO development bank) is part of this overall scheme.

> *The AIIB, is as much a scheme for dealing with a series of domestic economic and political problem as it is a diplomatic initiative.*

This is not to suggest that AIIB's designers did not have foreign policy considerations. They most definitely did. However, their diplomatic ambition was very likely to have been regional. The Chinese government was as surprised as the rest of the world by the response to the new bank from non-Asian countries and by the alarmist reaction of the US government. While the Chinese public celebrated China's unexpected triumph, Chinese officials have bent over backwards to emphasise that the new bank will "play by the rules".

The domestic roots of the AIIB initiative may have contributed to the strong reaction of the United States and some of its allies (such as Japan and Canada) to this part of China's new financial statecraft. The hostility towards what they see as China's attempt to undermine the existing international order could encourage the more nationalistic forces in China, making the "China threat" a self-fulfilling prophecy. Fortunately, so far the signs are encouraging. The Article of Agreement accepted in June 2015 specifically states that the new bank will "promote regional cooperation and partnership in addressing development challenges by working in close collaboration with other multilateral and bilateral development institutions".

The two-level game of joining the SDR

The SDR is a synthetic currency created by the International Monetary Fund in the late 1960s to supplement the gold standard and the dollar in providing international liquidity. Since 2000, the value of the SDR has been determined by a basket of four currencies: the dollar, the euro, the yen and the sterling. In 2015, China is actively pushing to have the RMB included in the SDR basket in the current round of IMF review. Some observers have dismissed China's SDR initiative as largely symbolic; others see it as an integral part of China's "yuan diplomacy" aimed at diminishing the role of the US dollar in the international monetary system. While the IMF, many European countries and developing countries have expressed support of China's request, the United States (along with Japan and Canada) has been reluctant to do so, arguing that the RMB does not yet meet the IMF's criteria.

While reforming the dollar-dominated international monetary system is no doubt a long-term goal for China, it is not necessarily the most important driving force behind China's initiative. At least for some in the Chinese policy-making circles, getting the RMB into the SDR basket is more about accelerating financial liberalisation in China. Financial repression has been a serious obstacle for economic restructuring, innovation and equitable development. Chinese leaders recognise that as China exhausts its old model of extensive economic growth, there is a pressing need for change.

Reform has been highly controversial in China. Various interests groups have different views as to how far and how fast to move in that direction. On the one hand, reformers—many of whom are in the People's Bank of China (PBoC)—advocate reducing government control to allow for freer capital flow and more market-based interest rates and exchange rates. These measures, they believe, are necessary to develop a more efficient and sustainable financial system and, in particular, more effective monetary policies. On the other hand, opponents of reform, including economic planners, state-owned enterprise and the exporters of tradable goods, have sought to slow down the pace of change because it threatens their bureaucratic and economic interests.

In this context of political gridlock, meeting the criteria for joining the SDR basket, including exchange rate and capital-account liberalisation, has emerged as a useful instrument for the reformers to strengthen their position. In his statement at the IMF earlier this year, PBoC's Governor Zhou Xiaochuan put it explicitly, "we look forward to the upcoming quinquennial SDR review, given its pivotal role in strengthening the SDR's representation of the multilateral global economy, and in contributing to the reform of not only the international monetary system but also the individual member's financial system".

Keeping in mind China's domestic context, the international community should handle China's bid for the SDR basket in a way that will encourage Chinese reformers, who have taken important steps in liberalising the exchange rate and capital control in recent months. Purely seeing it as China's effort to undermine US influence is inaccurate. It may miss an opportunity to facilitate reform in China and create unnecessary resentment from the Chinese public.

Conclusion

With the meteoric rise of China's economy in the last two decades, Western policy-circles have been obsessed with the question of whether the country is a status-quo power or a revisionist one. Recent foreign-policy initiatives made by China, especially in the financial area, have caused alarm among some that as its power grows, China will increasingly challenge the status quo. This line of structural realist-thinking, which infers state preferences and behaviour on the basis of its relative power position in the world, can be problematic. As discussed here, China's foreign policy is as much based on its domestic imperatives as its international ambitions. Ignoring the domestic dynamics of Chinese foreign policy-making could lead to miscalculated and counter-productive responses to China.

China's evolving interests in the Arctic and the Russian dimension

Chapter 15 – China's evolving interests in the Arctic and the Russian dimension

Over the past five years, interest in the Arctic has grown dramatically among non-Arctic states, especially in Asia. Governments across Asia are trying to determine how to best take advantage of the opportunities while simultaneously manage the challenges resulting from the melting Arctic ice. The growing investment by the Chinese government into research on the Arctic causes concern in other countries—the littoral Arctic states in particular—about Beijing's Arctic intentions.

How China will use its power is one the most profound uncertainties of the 21st century. The anxiety that this uncertainty evokes even spills over into assessments of China's Arctic ambitions, despite the fact that China is not a littoral Arctic state or an Arctic Council permanent member. The permanent observer status that China gained in 2013 (alongside Japan, South Korea, Singapore and India), does not even bestow it voting rights in the Arctic Council. China's Arctic activities to date have not been assertive, contrary to its behaviour in the South and East China Seas. China's Arctic activities have been similar to those of other countries, aimed at improving the nation's capacity to understand the changes taking place in the Arctic. However, China's sheer size and the speed with which the Chinese Arctic-focused research community has grown in less than a decade causes jitters. When one adds to this the uncertainty over the Arctic future more generally, the end-result is a powerful emotional undercurrent that is present in most non-Chinese analysis of China's Arctic ambitions. Every move that China makes is scrutinised to find evidence of a rising power wanting to throw its weight around in a manner that will be disruptive for the region.

With this undercurrent in mind, the presentation will first provide an overview of the drivers of China's Arctic actions and, second, strive to explain why some of its Arctic activities spur on those who believe that China will challenge other nations' interests in the North. Finally, the Arctic dimensions of the China-Russia relationship will be assessed.

In line with officials in equally far-flung countries, Chinese officials believe that the Arctic's melting ice presents both challenges and opportunities for the country's economic growth. Climate changes

continue to have a detrimental impact on parts of the country's agricultural production. The melting ice has also been linked to extreme weather in China. Additionally, millions of people from coastal areas will have to be re-located due to rising sea levels. On the positive side, the prospect of ice-free summer months along the Northern Sea route potentially offers China's shipping industry shorter routes to markets in Europe and possibly even North America. China is also interested in new fishing grounds as well as the possibility to extract resources in the event that mineral and energy deposits buried in the Arctic seabed become accessible.

Consequently, Chinese officials are investing both financial and human resources to strengthen the country's capacity to protect its key interests there. These are, first, to prepare appropriate responses to the effects that climatic changes in the Arctic will have on food production and extreme weather in China; second, to ensure access at reasonable cost to Arctic shipping routes; and third, to access resources and fishing waters. In addition to increasing funding for Arctic-related research within both the natural and social sciences, China is building its second polar research ice-breaker. The new vessel is to be operational in 2016.

As a rising regional power intent on raising the quality and breadth of its scientific capabilities, it is natural that China is investing heavily in Arctic research and building a second ice-breaker. Two reflect a modest capacity if one compares it to the fleet of Russia or the Nordic countries.

China is also increasing its diplomatic efforts on Arctic issues. In recent years, senior Chinese leaders have visited the Nordic countries, including Iceland, more frequently than previously.

Overall, China is investing in its diplomatic outreach. Because the Arctic is a peripheral issue for China, fluctuations in regional affairs as well as major events and trends unrelated to the Arctic predominantly have an impact on China's relations with the Arctic Council member-states. The Arctic is not the dominant factor in any of Beijing's bilateral relationships, with the possible exception of Iceland. China-Russia ties and China-US ties are intertwined with complex strategic, political and economic objectives. China's relations with the Nordic countries and Canada focus on diverse sectors ranging from energy and the environment to civil society and social welfare.

China has not published an Arctic strategy nor is it expected to do so during the next ten years. The Arctic is simply not high enough on China's political agenda. However, it is possible to discern the general gist of the Chinese government's current thinking on the future of the region from public statements by Chinese officials and researchers. Increasingly, those in China dealing with the Arctic emphasise that the Arctic is a global challenge and that because the melting ice impacts on countries far away from the Arctic (eg, China), non-Arctic states should have a voice in deciding Arctic governance. To secure what it perceives its deemed rights, China wants to see a 'globalisation' of the polar region. Chinese researchers have introduced the concepts of "near-Arctic state" and "Arctic stakeholder" to emphasise the importance of non-Arctic states.

China's emphasis on the Arctic being of importance to all humanity and the effect the changes in the Arctic have on non-Arctic states contributes to anxiety over China's intentions in the Arctic. While Chinese officials repeatedly make assurances that they respect the sovereign rights of the Arctic states, they also say that Arctic states need to consider the interests of non-Arctic states. Provocative media statements by a retired military officer and a handful of researchers reinforce the notion that China will at some point become assertive in the Arctic, in particular propelled by its need to secure energy. The anxiety is understandable when one considers a statement of this kind by Qu Tanzhou, Director of the Chinese Arctic and Antarctic Administration: "Arctic resources, in my opinion, will be allocated according to the needs of the world, not only owned by certain countries....We cannot simply say that this is yours and this is mine".

China's quest for energy security is also a major driver of Beijing's desire to deepen its relations with Moscow. Over the past few years, the overall warming of China-Russia ties has extended to the countries' Arctic interaction. Of particular relevance are Western sanctions on Russia because of Ukraine, which have compelled Russian companies seriously to seek Chinese investment to develop energy projects in the Arctic. There have even been discussions with the China National Offshore Oil Corporation (CNOOC) about towing its gigantic HYSY-981 oil rig from the South China Sea to the Arctic.

In May 2014, the privately-owned Russian gas producer Novatek signed a deal to supply the China National Petroleum Corporation (CNPC) with 3 million tonnes of LNG annually for twenty years from

their joint Yamal LNG project in Russia's Arctic region. LNG will be shipped directly to Nanjing via the Northern Sea route, taking about 12 days, compared to the 38 days via the previously used Suez Canal route. With the deal, Novatek owns 60 per cent of the Yamal LNG project, while CNPC wins 20 per cent, providing it a firm foothold in the Russian Arctic. The Yamal LNG project is one of the largest industrial undertakings in the Arctic and aims to utilise the emerging potential of a new Arctic maritime route to transport LNG to Asia and Europe. Russian energy company Rosneft is also in negotiation with CNPC and other Chinese national oil companies to explore for oil in Russia's Arctic fields.

In principle, China and Russia are ideal partners in the energy sphere, considering their geographic proximity and near perfect supply-and-demand complementarity. However, energy cooperation has progressed haltingly over the past decades, in part due to an underlying mix of historic animosity and suspicion about the other's intentions in bilateral ties—despite senior leaders' rhetoric about the countries presently enjoying the best relations in history. In principle, the two countries are of mutual assistance in the Arctic. Russia is in dire need of foreign investment to extract energy and build vital energy infrastructure in its Arctic Exclusive Economic Zones (EEZ). In the same vein, China, as a non-Arctic state, has no choice but to partner with an Arctic littoral state to gain access to energy and other resources in the Arctic.

A notably warm statement about Russian-Chinese Arctic cooperation by Russian foreign minister Sergei Lavrov in August 2015 reflects the current upbeat mood in Moscow. A mere two years ago, it was unclear whether Russia would block China's desire to become a permanent observer. Now "China is Russia's No. 1 Partner in Arctic Development" according to the Sputnik publication's headline of Lavrov's speech.

From China's viewpoint, Russia's intentions in the Arctic remain a concern. In private conversations, Chinese officials worry that Russia will impose unreasonable fees for use of obligatory ice-breaker and search-and-rescue services in its territorial waters and EEZ along the Northern Sea Route. Other Asians share this concern.

In conclusion, reports that describe China's Arctic actions as 'assertive' should be read with caution; in reality, China's Arctic policies are still a work in progress. Despite China's underlying, but unstated, motive to exert influence as a rising major power, there is no evidence of Chinese plans to disrupt the Arctic peace and

disturb the delicate balance of power which has been established among littoral states and Arctic Council member-states. Undoubtedly, China wants to be included in discussions about future Arctic governance mechanisms. So do several non-Arctic states. Over time, if China's rise continues, China will most probably expect a larger voice in Arctic affairs. In the short term, ensuring access for Chinese vessels to the Arctic shipping routes at a reasonable cost will be a priority simply because the melting ice will permit regular ship transits sooner than resource exploration and extraction. This means that China will be dogmatic in emphasising the rights of non-Arctic states when issues such as search-and-rescue requirements, environmental standards and ice-breaker service fees are decided.

US-China relations: The torments of the world's most influential duo

Chapter 16 – US-China relations: The torments of the world's most influential duo[6]

Xi Jinping wrapped up his first state visit to the United States on 25 September 2015 and, from the perspective of China's leaders, the trip was a great success despite the absence of any significant agreements or diplomatic break-throughs. While US officials tend to focus on 'deliverables' and substantive outcomes from high-level meetings, the Chinese Communist Party (CCP) is much more concerned about the 'optics' and the chance to make the Chinese leader look statesman-like and powerful on the world stage. Behind the photo-ops and the official ceremonies, however, the Sino-US relationship is probably undergoing one of its worst periods outside of crisis events like the 1999 Belgrade embassy bombing or the EP3 spy plane collision of 2001.

Chinese leaders like to use numerical catchphrases to encapsulate their ideology and theories. In this same spirit, the author would sum up the forty-four years of post-rapprochement Sino-US relations as "three eras" and "three categories of engagement".

The first era began with Nixon's visit to China to meet Mao in 1971 and lasted until the fall of the Soviet Union. The most important element of the relationship in that period was a shared hostility towards "Soviet hegemony".

The second era of Sino-US relations began following the brief period of US sanctions imposed after the Tiananmen Massacre of 1989; it was typified by increasingly close economic engagement symbolised by China's entry into the World Trade Organization (WTO) in 2001. In 1991, bilateral trade between the two countries totaled USD 14.2 billion but by 2012 it had reached more than USD 500 billion.

The end of that era of closer economic ties was foreshadowed in the 2008 US-originated global financial crisis, but it properly ended in 2012 when President Xi Jinping took power over the world's most populous nation. We are still in the very early stages of this new third era but already we can see that the Sino-US relationship will be far more complex and far more contentious than in the past.

We can divide this new stage of the relationship into three broad categories of engagement. The first and most hopeful category is that of global governance and international security. This category includes climate change, diseases and epidemics, fighting terrorism, non-proliferation and other international security issues that are far from China's shores. We have seen quite a lot of movement and cooperation in these areas and this facet of the relationship is seen as the most hopeful and productive by both sides. In the recent Iran nuclear deal, a centre-piece of President Obama's foreign policy, China is credited with being quite helpful and on the difficult issue of North Korea, Beijing and Washington have cooperated quite closely. China has also been happy to provide intelligence and some assistance to the US in its fight against Islamic State in Iraq and the Levant (ISIL). Even on the issue of Syria, the US and China may have as many agreements as they do disagreements.

The second broad category is the economic and financial relationship between the two countries. Up until 2012, this was by far the strongest and most important area in the bilateral relationship but it is now better to describe this category as "mixed". The Chinese government has been promising for more than a decade to better protect intellectual property but enforcement is no better than in the past. Chinese cyber-attacks aimed at stealing commercial secrets have only added to outrage amongst US companies that also have to deal with preferential nationalistic policies that have proliferated under President Xi. The US blocking of Huawei and other Chinese companies from the US market on security grounds has been very badly received in Beijing and the 2008 financial crisis seriously undermined the credibility of the US system in the eyes of Chinese policy-makers. There is some hope that the US and China will be able to eventually conclude a bilateral investment treaty that should open up the Chinese market more for US companies, but this is still a long way off.

Perhaps the most significant change in the economic relationship in recent years has been the change of heart among large US multinational companies that in the past acted as natural lobbyists on behalf of Beijing and in favour of engagement with China. The same companies that overwhelmingly supported China's bid to join the WTO in 2001 are now some of the loudest voices complaining about how badly they are treated in China and urging the US administration to take action. This seems to be the result of a combination of continued, aggressive intellectual-property infringement, more nationalistic Chinese economic policies and a

deterioration in the business environment for US companies in China, even as it becomes the biggest and most important market for many of them. While US accusations that China intentionally undervalues its exchange rate have faded in recent years, Beijing's decision on 11 August 2015 to carry out a small devaluation and move to a new exchange rate-setting mechanism has revived some of that criticism.

The ongoing Chinese economic slowdown and huge build-up of debt raise questions about the future sustainability of what is now the world's largest economy in purchasing power terms and that raises further questions over how much energy and time US businesses should devote to cultivating China. The stock market and currency turmoil over the summer of 2015 and the confused response from the Chinese authorities has only added to this uncertainty.

The third and most contentious category encompasses the bilateral strategic relationship. In the words of both Chinese and US policy-makers and foreign-policy advisors, this category is "very bad", "dismal", "truly awful", "really tense" and "blowing up right now". At least once a week there are headlines about cyber-attacks, disputes over the South China Sea, conflict between China and Japan and the generally worsening US-China strategic relationship. The friction is only exacerbated by China's increasingly close alliance with Russia and what Beijing considers to be provocative US support behind the scenes for Japan, the Philippines and other countries in disputes with China. Both sides say the most they can hope for in the future is some sort of stabilisation and a halt to further escalation on issues such as cyber-attacks and East and South China Seas territorial claims.

In considering the current general state of the Sino-US bilateral relationship, it is fair to say it is now far more complex and multi-faceted than at any time in the past. It is also fair to say it is increasingly characterised by friction and the rising potential for conflict.

In broad terms, the US as the existing hegemon is deeply invested in maintaining the status quo in Asia while China as the rising hegemon (a role it explicitly rejects in its rhetoric) is committed to changing the current balance of power in the region. "Under Xi Jinping, China aspires to strategic preponderance in the western part of the Western Pacific—in other words it intends to be dominant in all of the South China Sea and in all areas west of the

first island chain—including Taiwan and of course the Diaoyu islands but not necessarily Guam, Okinawa or Japan itself", said one senior advisor to the Chinese leadership. He went on to say "The US and its allies are not yet ready to accept this and so in the coming years, we can expect to see growing strategic rivalry, competition and even outright conflict".

In his speech to US business leaders in Seattle on 23 September 2015, President Xi explicitly referenced the Thucydides Trap and said China and the US could definitely avoid falling into it. The Athenian historian and general attributed the inevitability of war between Athens and Sparta in the 5th century BC to the rise of the former and the fear it invoked in the latter.

Since taking power in late 2012, President Xi's most important foreign-policy initiative has been his proposal for a "new type of great power relations" between the US and China that is characterised by "mutual respect, avoiding confrontation or conflict and cooperating for win-win results". The key point to take from this policy is the continuing belief among China's Communist leadership that they cannot afford (militarily, financially or politically) a direct conflict with the US, at least in the foreseeable future.

When first confronted with this new Chinese philosophy in 2013, the Obama administration was a bit at a loss over how to respond. The initial reaction was to change the wording slightly to say the US was also committed to these same principles and the formation of a new type of "major power" relations, but more recently use of this very phrase seems to have become prohibited for US officials. China has a long history of convincing other countries to sign up for vague theoretical statements that it then tends to flesh out later, sometimes much later, in a way that suits its interests. The fear in the US is that this particular phraseology is meant to implicitly indicate US recognition of China's territorial claims and US deference towards its status as a rising 'great power' with many 'core interests' that the US must respect. This wariness on the part of the US feeds into the overwhelming impression that permeates all Chinese thinking on the bilateral relationship—the belief that America is intent on 'containing' China and denying it a rightful place as a global or even regional superpower.

The current difficulties in the relationship are compounded by the fact that China's leaders believe Obama is a weak president who is long on rhetoric and short on action. Traditionally, China's leaders have always preferred to deal with a Republican in the White House rather than a Democrat. "We see the Republicans like tigers—they are tougher on China and they make a lot of noise but at least we know where they stand and how dangerous they are", said one policy advisor to the Chinese leadership. "But the Democrats, and especially Obama, are more like snakes—they look like harmless sticks until you stand on them and then they can be very poisonous".

> *...the continuing belief among China's Communist leadership [is] that they cannot afford (militarily, financially or politically) a direct conflict with the US, at least in the foreseeable future.*

The US position towards China revolves around three main goals: to include the country in the liberal global order as a "responsible stakeholder"; to push back against Chinese assertiveness and what Washington considers to be predatory behaviour; and to do both while ensuring rivalry and conflict do not become endemic. Engagement with China is the default strategy for all US presidents and President Obama has met his Chinese counterparts more often than any other of his predecessors since normalisation of relations in 1979. But, as one senior US official puts it "engagement is like speaking Spanish—it's very easy to do it badly, but to do it properly takes a huge amount of energy".

The US rejects the Chinese accusation of containment and prefers to describe its stance as a policy of "security balancing" that "delimits the choices available to China in the region". The much-vaunted and later discredited "pivot" to Asia and the failed attempts by Washington to convince allies like Australia, the UK and South Korea to eschew joining China's Asian Infrastructure Investment Bank (AIIB) show how the US often struggles to formulate a response to Chinese initiatives.

Beijing's increasingly aggressive moves in the South China Sea have become the biggest source of friction in the relationship since President Obama visited China for the Asia-Pacific Economic Cooperation (APEC) meeting in November 2014. That visit was widely seen as a big success and the two sides signed a total of

twenty-seven agreements on everything from climate change to military-to-military communications to reciprocal ten-year visas. But almost as soon as President Obama had left town, President Xi "turned on the spigots" (in the words of one US official) and began building and militarising artificial islands in the South China Sea on a massive scale to press Beijing's territorial claims there. At the same time, America watched the scramble by many of its traditional allies, led by Britain, to join the newly-established AIIB and sign up for China's "new Silk Road" initiative to extend Chinese influence westward.

US officials freely acknowledge (in private) how limited their options are and how frustrated they have become in their attempts to deal with China's island-building and general assertiveness. This sense of frustration has considerably hardened the US military and intelligence communities' attitudes towards China and there is increasing talk now about the need to "operationalise the strategic rivalry" on a broad range of fronts.

From the Chinese perspective, the "salami-slicing" tactic of small but compounding acts of assertiveness has been spectacularly successful at changing the facts in the water, particularly in the South China Sea. Since no single slice is big enough for the US to risk confrontation over, China continues to gradually make small gains and solidify its grip over disputed territory.

Advisors to China's leaders describe "one remarkable advantage and two risks" involved in Beijing's current strategy. "Despite all the US interference and resistance, they have de facto to capitulate again and again over small assets without ever seriously having the choice to resist as China continues to expand its economic and military power step by step", said one of them. "But there are two risks. The first is that China's neighbours will band together against it and we have already seen that to some extent. The second, much more serious, risk is that China will go too far with these small steps and the US will mobilise with its allies and respond forcefully. This would be disastrous but it is very difficult to anticipate in the early stages of China's current policy".

The potential for miscalculation on both sides is made much greater by the regular miscommunication and misreading of the other's actions or intentions as demonstrated by the following example. US officials were on the whole very pleased with the outcome of the Sunnylands, California conference between Obama and Xi in 2013. But although the Chinese side made positive noises

in public, President Xi and his team were actually very disappointed and angered by the experience, according to people in China who claim to have direct knowledge of the matter. The main reason, according to these people, was the fact that the US simultaneously conducted joint exercises with its Japanese allies to capture islands just off the coast of San Diego—a clear and direct provocation in the eyes of the Chinese. Chinese analysts trace much of the mutual hostility since then to this incident, but to most in US policy circles the meeting is remembered only as a big success.

The potential for misreading and miscalculation is greatly heightened by the opacity of the secretive Chinese system and the centralisation of decision-making that has happened under President Xi. Chinese and US officials agree that although Xi Jinping not particularly well-informed or sophisticated when it comes to world affairs, he is very clearly in full control of China's foreign policy. He does have well-educated and deeply experienced advisors but they spend most of their time agreeing with him and justifying his policy decisions. "In Chinese history there are two types of emperor—the one that is dictatorial and the one that relies much more on subordinates; Xi does not belong in the second category", said one Chinese policy advisor.

Partly because his subordinates are reluctant to make bold foreign-policy proposals, President Xi's foreign policy is seen by some in the Chinese system as less coherent and clear than under past leaders. Most agree that for now the main goals and aspirations are relatively limited. China wants to dominate in its own immediate neighbourhood and eventually exercise unchallenged sovereignty over disputed territory in the East and South China Seas. But Chinese advisors acknowledge that if the current policies continue to prove successful, China's ambitions are likely to grow and its strategic goals expand beyond the first island chain and limited preponderance in the western part of the Western Pacific. "Success always makes people expand their objectives, even if that expansion is unconscious", one of these people said. "It is only logical that China will become more assertive and expansionist the more successful it is".

Trends defining relations between Tokyo and Beijing

Chapter 17 – Trends defining relations between Tokyo and Beijing

The rise of China provides both opportunities and challenges for Japan. China is an important economic partner for Tokyo. It is also an important security partner to deal with non-traditional security challenges such as climate change and energy security. However, China is also a potential challenger to the international order. It has enjoyed rapid economic growth as a free rider under the US-led international system. But as its power grows, China is seeking a bigger role in the international system as indicated by the announcement of "One Belt, One Road" and the Asian Infrastructure Investment Bank (AIIB). At the same time, China has become more assertive, expanding its territorial and maritime claims in the East and South China Seas and pursuing anti-access and area-denial (A2/AD) or counter-intervention strategy far beyond its shores.

This paper presents an overview of how Japan intends to deal with these tensions. Japan's 2013 National Security Strategy (NSS) calls for a "proactive contribution to peace" to maintain the rules-based liberal international order. Japan is one of the primary beneficiaries of the liberal international order that has developed under the US leadership. Tokyo attempts to balance China's assertive behaviour by increasing its own power through economic and security policy reforms. Japan also attempts to balance a rising China by expanding international partnerships.

Japan's strategic vision

After returning to power in December 2012, Prime Minister Shinzo Abe made clear his intention to bolster Japan's security policy by establishing a National Security Council (NSC). The NSC then proceeded to adopt Japan's first-ever NSS in December 2013, which calls for a "proactive contribution to peace". This concept denies the so-called "one-nation pacifism", that took root in post-war Japan. After the war, its citizens were reluctant to play a proactive role in world affairs even though Japan's security and prosperity depend on a stable international system.

Prime Minister Shinzo Abe bases his concept of a proactive contribution to peace on a realistic assessment of Japan's security environment and balance of power. His strategic vision combines

internal balancing (restoring national power to balance the rise of China) with external balancing (allying with like-minded maritime nations to address Chinese excessive maritime claims).

Abe understands that the economy is the primary source of national power. His reforms, known as Abenomics, is based on the "three arrows" of monetary easing, stimulus spending and growth strategy with structural reforms. He has reversed the decade-long downward trend of defence spending, but cannot increase it further until the economy returns to its growth. So the success of Abenomics has security implications. The Abe administration has also introduced the concept of a "dynamic joint defence force", while relaxing restrictions on defence policy, such as the ban on collective defence and arms export.

To achieve an external balance, Abe and his followers envision a coalition among Japan, the United States, India and Australia—a "democratic security diamond"—as a key enabler for Japan's strategic diplomacy. In addition, Abe aims to strengthen ties with the Association of South East Asian Nations (ASEAN), Europe, Russia, the Middle East, Africa, Pacific island nations and Latin America. In 2014 Abe visited approximately seventy countries and conducted nearly three hundred summit meetings between December 2012 and September 2015. Abe's strategic diplomacy objectives are two-fold. He seeks to secure energy supplies and open new markets to re-launch the Japanese economy. Also, he seeks to promote Japan's efforts to address China's attempts to challenge the liberal, rule-based international order. The US is Japan's key partner, and the new US-Japan Defence Cooperation Guidelines make the alliance better able to deal with China's assertiveness.

Japan's new security posture

The Abe administration revised the National Defence Program Guidelines in 2013. It now calls for a dynamic joint defence force (DJDF) that will entail strengthening the Japan Self-Defence Force (JSDF). Since the defence of Nansei Islands, located in the south west of the country, requires air and maritime superiority, a DJDF envisions their active and regular surveillance to ensure a seamless response to "gray zone scenarios" between peacetime and wartime. Rapid deployment of combat troops, armoured vehicles, air-defence units and ground-to-surface missile launchers are important enablers in the defence of the Nansei Islands. The concept of a DJDF makes strategic sense. In essence, it is a

Japanese version of A2/AD strategy along the islands. The demonstration of an enhanced defence posture would send a message of deterrence to Beijing.

The Abe administration reinterpreted the constitution to ensure a seamless response to any situation that threatens Japan's national security. In May 2014, Abe's advisory board advocated the exercise of collective self-defence and the country's participation in United Nations collective security measures. On the basis of this report, the Abe administration decided on a "minimum" exercise of the country's right to collective self-defence. The decision assumed the exercise of collective defence only when Japan's national survival and the rights of Japanese citizens are fundamentally threatened. In other words, there is little difference between individual and collective defence. The participation in collective security activities will be also restricted, as the JSDF is not allowed to participate in any activity that is part of the use of force by another state.

Based on this cabinet decision, the government prepared the legislation for peace and security and introduced bills into the Diet. The Diet passed the bills in September 2015. After the legislation goes into effect in the spring of 2016, Japan will be able to exercise collective self-defence in a situation that threatens Japan's national survival, while Japan can provide logistical support for US and other militaries without any geographical restriction. However, Japan's policy on the use of force will continue to be restrained compared with international standard. This restricted posture reflects the Japanese public's cautious reaction to expanding the JSDF's role.

The new US-Japan defence guidelines

China is challenging Japanese territory and sovereignty in the East China Sea. China recognises that the overall military balance still favours Japan and the United States, and therefore takes measures short of an armed attack to avoid US military intervention.

The new US-Japan Defence Guidelines will upgrade bilateral operational cooperation and enhance the alliance's structure. The new guidelines enable Japanese and US forces to conduct effective, combined operations in defence of each other's units and assets on the high seas. The new guidelines also define the division of labour between the JSDF and the US military. The traditional division of labour was "spear and shield"—US forces provide offensive strike capabilities and the JSDF provides defensive measures. Under the new guidelines, the JSDF takes the primary responsibility with both

a short spear and a big shield, while the US military plays a supporting role with long-range strategic strike capabilities. The new division of labour will make the alliance more symmetric and sustainable.

The new Alliance Coordination Mechanism (ACM) will endorse this upgraded operational cooperation. Under the ACM, the JSDF and US military will share information and situational awareness from peacetime to gray-zone and contingencies, while coordinating bilateral responses. It will allow the alliance to effectively respond to "creeping" Chinese coercion. The new guidelines will also allow the JSDF and US forces to prepare flexible deterrent options (FDOs) for escalation control. By demonstrating its will and determination through the deployment of allied units, the alliance can dominate the escalation. For instance, when the US sent two carrier strike groups to the vicinity of Taiwan during the 1996 Taiwan Strait crisis, Japan was not involved. Under the new guidelines, the alliance partners can now fly their flags together in this kind of situation.

The new guidelines call for cooperation with third parties. The alliance can work more closely with Australia in the Pacific and India in the Indian Ocean. Given the change in the regional balance of power, the traditional US 'hub and spokes' alliance network is not sufficient to maintain the regional order in Asia. Japan and the United States are integrating other regional partners, particularly Australia, India, Vietnam and the Philippines into the alliance. The partnership among Japan, the US and Australia is the cornerstone in maintaining regional order. India is another promising but still difficult partner because of its size and the non-aligned tradition. As well, the alliance can conduct more effective and efficient capacity-building with countries such as the Philippines and Vietnam. US-Japan cooperation for the new Australian submarine program will enhance the alliance's underwater superiority in the Pacific.

Conclusion

Japan's NSS reflects Abe's strategic vision. It recognises the ongoing power shift from the United States to other emerging powers such as China and India and calls for Japan to make a proactive contribution to peace to maintain the liberal international order. Japan will proactively contribute to the improvement of global security environment.

Japan is not going to contain China or appease Beijing under Chinese military pressure. On the one hand, Japan is going to build sufficient defence capabilities and partnerships to discourage China's assertiveness, while encouraging Beijing to play a more responsible and constructive role. To that end, Japan needs to establish a robust defensive wall to secure southwestern Japan, while building the capacity of like-minded partners to maintain the rule of law in the region.

On the other hand, there is a pressing need for crisis management between the US-Japan alliance and China to avoid miscalculation and control escalation. Japan and China are about to agree on a maritime/air communication mechanism between defence authorities. The next step is to establish a code of conduct in the maritime and air domains. Similar efforts are being made by the US and China. These efforts are designed to manage crises through the application of existing international law (such as the United Nations Convention on the Law of the Seas) and international rules (such as the International Regulations for Preventing Collisions at Sea). If they prove successful, they will contribute substantially to stabilising Japan-China relations.

The making of a *fait accompli*: Clashing maritime claims and regional stability in the South China Sea

Chapter 18 – The making of a *fait accompli*: Clashing maritime claims and regional stability in the South China Sea

The significance of China's island-building lies less in what it has done so far than in what it might be about to do. It is worth remembering that, even though China has been dredging and building since September 2013, it has not occupied any new territory. Six of the seven recently built islands lie on reefs that China settled in 1988. The seventh, Mischief Reef, was occupied in 1994. The question is what will it do next?

Concern should focus on three areas of the South China Sea: the Vanguard Bank, off the Vietnamese coast; the Reed Bank, off the Philippines coast; and around the Luconia Shoals and James Shoal, off the Malaysian coast. All three have significant oil and gas potential. That is not to say that hydrocarbons are the sole reason for China's island-building. There are many motivations, reflecting China's many security interests and its many internal lobbies.

On 9 April 2015, the Chinese Foreign Ministry spokesperson provided a list of these motivations. It was a long list, perhaps to camouflage the most important items: territorial defence, including the assertion of sovereignty for its own sake, maritime rights and the harvesting of mineral resources and fish around the islands.

Having observed developments over the past four years, the author has concluded that, in the Chinese worldview, the island-building is a defensive move. However, that worldview is founded upon a strong, though very misplaced, sense of historical entitlement. China may not yet be a great power but it has already acquired great power autism.

Ever since Deng Xiaoping ordered the creation of China's first special economic zone in Shenzhen in 1980, national prosperity has depended upon an arc of cities around its coast. The Chinese Communist Party (CCP) leadership fears intervention against these cities and ports by the United States either as a direct move against its rule or within the context of a Taiwan crisis. The new islands—equipped with over-the-horizon radar facilities, hypersonic anti-ship missiles and anti-submarine capabilities—would presumably form part of a Chinese sea-denial strategy to try and protect its coast.

The CCP appears not to believe that free trade and the global commons are sufficient to deliver security. China has been a net importer of food since 2007 and in September 2013 (coincidentally the same month the island-building began) it overtook the US as the world's largest oil importer. Foreign trade makes up more than half the value of Chinese gross domestic product (compared to less than a third in the United States). Yet the country has no clear access to the open sea.

> *China may not yet be a great power but it has already acquired great power autism.*

The more the US talks about "offshore balancing"—code for starving China into submission in the event of conflict—the more the Chinese military makes plans to try to make achieving it more difficult. By creating runways, naval bases and logistics depots on the reefs, China is creating the capacity to project power closer to the Straits of Malacca to protect those trade routes. The more recent Chinese Defence White Paper, published in May 2015, handed the People's Liberation Army (PLA) a new "strategic task", namely to "safeguard the security of China's overseas interests", especially in the maritime domain. According to the paper, the PLA Navy "will gradually shift its focus from 'offshore waters defense' to the combination of 'offshore waters defense' with 'open seas protection".

Another military reason may be the desire to construct in the South China Sea what submariners call a 'bastion': an area of relatively deep water in which ballistic-missile submarines can hide. The Soviet Union turned the Sea of Okhotsk, northeast of Japan, into such a bastion during the Cold War. China's development of a large submarine base at Yulin on the southern tip of Hainan Island, combined with the recent constructions in the Spratlys, suggests Beijing may have borrowed the idea.

On a regional level, China's island-building is likely to deter South East Asian claimants from exploiting the resources around the Spratlys. Shorter supply lines and reliable bases will enable more coastguard and naval vessels and aircraft to be on station and the local deployment of maritime patrol aircraft will facilitate greater domain awareness.

Access to fisheries is important. As incomes rose in China between 1970 and 2010, the proportion of fish in the national diet quintupled, to 25 kilogrammes per person per year. Over-fishing

has forced crews to look further out at sea. In 1988, 90 per cent of the Chinese industry fished inshore. By 2006, 60 per cent of the catch in Guangzhou province was offshore. Trawlers receive tens of thousands of dollars in grants to expand their capacity to fish further away from home. Hundreds, perhaps thousands of fishing boats in Hainan province receive between USD 300 and USD 500 per day to go fishing in disputed waters.

And then there is oil and gas. Vietnam claims the Vanguard Bank and leased several years ago the hydrocarbon rights to Talisman (formerly of Canada, now part of Repsol). But in July 2014, the *Chinese* rights to drill on the Vanguard Bank were sold to Brightoil, a Hong Kong-based company with connections to the Chinese political establishment. It is possible that this could be a prelude to renewed efforts by China to drill there once the supporting military and coastguard infrastructure is in place in the Spratlys.

Malaysia already has active oil production operations around the Luconia Shoals, within its claimed Exclusive Economic Zone (EEZ) off the coast of Borneo. However, in June 2015, the Malaysian government revealed that a Chinese Coast Guard vessel had been anchored near the Shoals for two years. China is also thought to regard the James Shoal area, even closer to the Malaysian coast to the southwest as oil-rich. A tragi-comical translation error in the 1930s has resulted in Chinese schoolchildren being taught to this day that the James Shoal is the country's southern-most territory. In fact there is no territory at the shoal: it is an underwater feature.

> *Hundreds, perhaps thousands of fishing boats in Hainan province receive between USD 300 and USD 500 per day to go fishing in disputed waters.*

Currently about a third of the electricity used on the main Philippine island of Luzon, which includes Manila, is generated by gas from the Malampaya field off Palawan. Philippine media reports suggest Malampaya's reserves will run out by 2024. However, there appears to be plenty of gas under the Reed Bank which, although inside the Philippines' EEZ, is also well within China's U-shaped line. In March 2015, Forum Energy announced that the Philippines government had denied it permission to drill on Reed Bank because of objections from China. Since then, Forum Energy has been forced to delist its shares from the London Stock Exchange. We can be reasonably sure that China will attempt to obstruct any attempt by the Philippines to drill in the area. It might

even attempt to get a rig there first. Its new harbour and runway on Mischief Reef are just 60 nautical miles away.

It is easy to term these resource grabs as 'offensive' moves but from a Chinese perspective it is the South East Asian countries that are trespassing on China's historic territory. Asserting sea control in the Spratlys is, in Beijing's view, defending national sovereignty and protecting maritime rights.

Not everyone sees it this way. The Chinese state showed no interest in the islands of the South China Sea until 1909 when, in response to a Japanese merchant extracting guano from Pratas Island, the governor of Guangzhou province launched an expedition to the Paracels. It expressed no interest in the Spratlys until 1935, and no Chinese official ever visited the Spratlys before 12 December 1946.

Nonetheless, in the first half of the 20th century an emerging nationalist consciousness resulting from the sense of 'national humiliation' inflicted by foreign powers created a strong belief that the South China Sea was historically Chinese. Its origins lie in an intellectual car-crash combining misunderstandings about history—namely that South East Asian territories that once sent tribute to the Chinese emperor considered themselves part of a Chinese domain—with the introduction of Westphalian-type borders into Asia. It is notable that whereas China has settled its land borders with almost all of its neighbours, it is in dispute on all three of its maritime frontiers.

It is vital to grasp the significance of this sense of historical entitlement because it underpins everything that China is doing. There is a symbiotic relationship between nationalist voices using resource arguments to justify their historic claim and state agencies using nationalist arguments to justify their resource grab.

> *When China talks about negotiating with rival claimants, it is hard to believe it means anything other than ultimately persuading those rivals to abandon their position.*

China—both the Republic of China (RoC) and the present day People's Republic of China (PRC)—advanced a claim and then a physical presence over the Spratlys as its knowledge and capabilities grew. It has been a slow and fitful advance but it has

been consistent. The author does not believe it will end until China occupies every land feature in the sea and controls the sea spaces in between. When China talks about negotiating with rival claimants, it is hard to believe it means anything other than ultimately persuading those rivals to abandon their position.

China therefore is heading for direct conflict with the current norms of international law. Although Beijing was a full participant in the negotiations that led to the adoption of the current law of the sea, it no longer regards the United Nations Convention on the Law of the Sea (UNCLOS) as a neutral arbiter of disputes but rather as a partisan weapon being wielded to sever China from its historic rights. It prefers an imaginative interpretation of customary international law that would recognise an historic claim to all the waters inside its self-proclaimed U-shaped line. Some Western analysts believe this line is just an opening gambit from which Beijing will negotiate a compromise. They are wrong; it is the destination towards which China is inexorably heading.

Endnotes

[1] Zhonghanhai, an imperial garden adjacent to the Forbidden City that serves as the central headquarters of the CCP and the PRC's State Council, is often used as a metonym for the Chinese leadership at large.

[2] Defining whom to call a "princeling" is a related problem. For some, it means a close descendant of one the Communist Party's "eight immortals"—prominent leaders in the 1949 revolution, most of whom (such as Xi Jinping's father Xi Zhongxun) fell afoul of Mao Zedong in the Cultural Revolution years. For others, a "princeling" is the son or daughter by blood or marriage of any earlier official ranking at the vice- ministerial level or above in the central government and party. Other listings, some 2,000 "princelings" long, include immediate relatives of officials serving in top-level posts down to the city level.

[3] Qiushihuangdi was the first emperor of Qin who united all of China in 221 BC.

[4] Gregg Bergersen was a weapon systems policy analyst at the Defense Security Cooperation Agency (agency within the US Department of Defense) who was convicted in 2008 of providing China with classified defense information.

[5] James Fondren was a Pentagon official who was found guilty in 2009 of providing classified information through Kuo under the guise of consulting services.

[6] This paper is based on numerous interviews with senior policy-advisors, both Chinese and American. All sources have requested anonymity.

Appendix A – Conference agenda

Appendix A – Conference agenda

Brittle Might?
Testing China's Success

A conference of the Canadian Security Intelligence Service

5-6 October 2015
National Headquarters
Canadian Security Intelligence Service (CSIS), Ottawa

Day one

8.30 – 8.45 Structure and objectives of the conference

8.45 – 9.00 Opening remarks

9.00 – 10.00 **On-stage debate – How strong or weak is China?**

10.00 – 10.30 **Module 1 – Assessing contemporary China**

10.30 – 10.45 Break

10.45 – 12.15 **Module 2 – Shaky foundations? The state of Chinese domestic affairs**

- *Demographics and challenges facing China's youth*
- *Error 404: Censorship, ideology and the "new" Communism*
- *A colossus with feet of clay? China's economic vulnerabilities*

12.15 – 13.15 Lunch

13.15 – 14.15 **Module 3 – China's House of Cards: Ruling from Zhongnanhai**

- *Xi Jinping's Counter-Reformation: Orthodoxy, discipline, and the struggle to reinstate party norms*

- *Factions, cliques, gangs and circles among China's elites*

14.15 – 14.30 Break

14.30 – 16.00 **Module 4 – Defending the fortress: Great walls of stones, sand and binary code**

- *All that strength: Assessing the People's Liberation Army's modernisation*
- *The People's Republic of China's intelligence apparatus: The challenges of professionalisation*
- *Warcraft in cyber-space: China's maturing capabilities*

16.00 – 16.40 *You die, I live: The lasting impacts of Chinese Communist Party's anti-graft campaign*

16.40 Adjourn

Day two

8.45 – 9.00 Introduction of second day's program

9.00 – 10.30 **Module 5 – China's new triumphalism and visions of world order**

- *A world order of one's own? China's regional ambitions*
- *The two-level game of China's financial statecraft*
- *China's evolving interests in the Arctic and the Russian dimension*

10.30 – 10.45 Break

10.45 – 12.00 **Keynote speaker: Engaging China**

12.00 – 13.00 Lunch

13.00 – 14.30 **Module 6 – Brewing tensions in the Asia-Pacific region**

- *U.S.-China relations: The current torments of the world's most influential duo*
- *From convenience to fear: Trends defining the relationship between Beijing and Tokyo*
- *The making of a fait-accompli: Clashing maritime claims and regional stability in the South China Sea*

14.30 – 14.45 Break

14.45 – 16.15 **On-stage discussion – Frenemy? Implications for Canada**

16.15 – 16.30 Summary

16.30 – 16.45 Closing remarks

16.45 Adjourn

Appendix B – Academic Outreach at CSIS

Appendix B – Academic Outreach at CSIS

Intelligence in a shifting world

It has become a truism to say that the world today is changing at an ever faster pace. Analysts, commentators, researchers and citizens from all backgrounds—in and outside government—may well recognise the value of this cliché, but most are only beginning to appreciate the very tangible implications of what otherwise remains an abstract statement.

The global security environment, which refers to the various threats to geopolitical, regional and national stability and prosperity, has changed profoundly since the fall of Communism, marking the end of a bipolar world organised around the ambitions of, and military tensions between, the United States and the former USSR. Quickly dispelling the tempting end of history theory of the 1990s, the 2001 terrorist attacks on the United States, as well as subsequent events of a related nature in different countries, have since further affected our understanding of security.

Globalisation, the rapid development of technology and the associated sophistication of information and communications have influenced the work and nature of governments, including intelligence services. In addition to traditional state-to-state conflict, there now exist a wide array of security challenges that cross national boundaries, involve non-state actors and sometimes even non-human factors. Those range from terrorism, illicit networks and global diseases to energy security, international competition for resources, and the security consequences of a deteriorating natural environment globally. The elements of national and global security have therefore grown more complex and increasingly interdependent.

What we do

It is to understand those current and emerging issues that CSIS launched, in September 2008, its academic outreach program. By drawing regularly on knowledge from experts and taking a multidisciplinary, collaborative approach in doing so, the Service plays an active role in fostering a contextual understanding of

security issues for the benefit of its own experts, as well as the researchers and specialists we engage. Our activities aim to shed light on current security issues, to develop a long-term view of various security trends and problems, to challenge our own assumptions and cultural bias, as well as to sharpen our research and analytical capacities.

To do so, we aim to:

- Tap into networks of experts from various disciplines and sectors, including government, think-tanks, research institutes, universities, private business and non-governmental organisations (NGOs) in Canada and abroad. Where those networks do not exist, we may create them in partnership with various organisations;

- Stimulate the study of issues related to Canadian security and the country's security and intelligence apparatus, while contributing to an informed public discussion about the history, function and future of intelligence in Canada.

The Service's academic outreach program resorts to a number of vehicles. It supports, designs, plans and/or hosts several activities, including conferences, seminars, presentations and round-table discussions. It also contributes actively to the development of the Global Futures Forum, a multinational security and intelligence community which it has supported since 2005.

While the academic outreach program does not take positions on particular issues, the results of some of its activities are released on the CSIS web site (http://www.csis-scrs.gc.ca). By publicising the ideas emerging from its activities, the program seeks to stimulate debate and encourage the flow of views and perspectives between the Service, organisations and individual thinkers.